

APPROPRIATION COMMITTEE TOWN OF LEXINGTON



REPORT TO THE 2022 ANNUAL TOWN MEETING & 2022-1 SPECIAL TOWN MEETING

RELEASED MARCH 21, 2022

APPROPRIATION COMMITTEE MEMBERS

Glenn P. Parker, Chair • Sanjay Padaki, Vice Chair • Alan Levine, Secretary
Carolyn Kosnoff (ex officio; non-voting) • Anil A. Ahuja • John Bartenstein
Eric Michelson • Meg Muckenhoupt • Lily Manhua Yan

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Summary of Warrant Article Recommendations

Abbreviations

EF	Enterprise Fund	CPA	Community Preservation Act
GF	General Fund	DSSF	Debt Service Stabilization Fund
RE	Retained Earnings	IP	A motion to Indefinitely Postpone is expected
RF	Revolving Fund	TDM	Traffic Demand Management

2022-1 SPECIAL TOWN MEETING

Art- icle	Title	Funds Requested	Funding Source	Committee Recommendation
2	Appropriate for 1575 Massachusetts Avenue / Police Station Replacement	Unknown	GF Debt	Approve (8-0)

2022 ANNUAL TOWN MEETING

Art- icle	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2023 Operating Budget	<i>See below</i>	<i>See below</i>	Approve (8-0)
5	Appropriate FY2023 Enterprise Funds Budgets	\$ 12,264,627 \$ 11,490,000 \$ 3,138,993	Water EF Wastewater EF Recreation EF	Dis/Approve (?-?)
6	Appropriate for Senior Services Program	\$ 15,000	GF	Approve (8-0)
7	Climate Action Plan	\$ 55,000	Unknown	Approve (8-0)
8	Appropriate for Comprehensive Plan Implementation	\$ 75,000	Unknown	Dis/Approve (?-?)
9	Establish and Continue Departmental Revolving Funds	<i>See below</i>	RF	Approve (8-0)
10	Appropriate the FY2023 Community Preservation Committee Operating Budget and CPA Projects	<i>See below</i>	CPA	[a-d,f-j,l-n] Approve (8-0) [e,k] Dis/Approve (?-?)
11	Appropriate for Recreation Capital Projects	\$ 95,000	Recreation EF Retained Earnings	Approve (8-0)
12	Appropriate for Municipal Capital Projects and Equipment	\$ 14,016,091	<i>See below</i>	Approve (8-0)
13	Appropriate for Water System Improvements	\$ 2,200,000	Water EF Debt Water EF Rates Water EF Retained Earnings	Approve (8-0)
14	Appropriate for Wastewater System Improvements	\$ 3,020,000	Wastewater EF Debt Wastewater EF Rates	Approve (8-0)
15	Appropriate for School Capital Projects and Equipment	\$ 1,343,006	Unknown	Approve (8-0)

2022 ANNUAL TOWN MEETING

Article	Title	Funds Requested	Funding Source	Committee Recommendation
16	Appropriate for Public Facilities Capital Projects	\$ 2,611,940	<i>See below</i>	[a-g] Approve (8-0) [h] Dis/Approve (-?)
17	Appropriate to Post Employment Insurance Liability Fund	\$ 1,935,486	Free Cash Tax Levy Water EF Wastewater EF	Approve (8-0)
18	Rescind Prior Borrowing Authorizations	None	N/A	Dis/Approve (-?)
19	Establish, Amend, Dissolve and Appropriate To and From Specified Stabilization Funds	<i>See below</i>	<i>See below</i>	Dis/Approve (-?)
20	Appropriate for Prior Years' Unpaid Bills	Unknown	Unknown	Approve (8-0)
21	Amend FY2022 Operating, Enterprise and CPA Budgets	<i>See below</i>	<i>See below</i>	Dis/Approve (-?)
22	Appropriate for Authorized Capital Improvements	Unknown	Unknown	Approve (8-0)
23	Appropriate From Debt Service Stabilization Fund	\$ 124,057	DSSF	Approve (8-0)
24	Adjust Retirement COLA Base for Retirees	None	N/A	Approve (8-0)
25	Appropriate for Worthen Road Recreation and Education District Land Use Concept Plan	\$175,000 (?)	Unknown	Dis/Approve (-?)
26	Appropriate for Nexus Studies	\$ 75,000	Unknown	Dis/Approve (-?)

Preface

This preface describes the structure and stylistic conventions used in this report. It is followed by an introduction discussing changes in the Town's financial status since the previous Annual Town Meeting, along with issues pertinent to the Town's general financial situation. The main body of this report contains article-by-article discussions and recommendations on those articles that, in our opinion, have substantial financial relevance. The report references several appendices at the end of this document that provide a deeper explanation of particular financial issues.

The discussion for each article presents the prevailing view of the Committee, as well as any other considerations or cautions that we feel Town Meeting should be informed of. If one or more Committee members are strongly opposed to the majority position, we summarize the opposing perspective. Each article discussion concludes with the most recent vote of the Committee prior to publication. The vote is summarized by the number of members in favor, followed by the number of members opposed, and lastly (when applicable) the number of members abstaining, e.g., "(6-2-1)" indicates six members in favor, two opposed, and one abstaining. It is not always possible to collect a complete vote for every article from nine voting members. In such instances, the total number of votes and abstentions published will be less than nine. For convenience, Committee votes are also summarized on the preceding pages.

This report does not replicate information readily available to Town Meeting members elsewhere. Key documents that inform our analysis and provide a more thorough picture of the Town finances are:

- The Town Manager's *Fiscal Year 2023 Recommended Budget & Financing Plan* (the "Brown Book"), dated February 28, 2022, fully describes the annual budget of the Town. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D).
- The *Level Service and Recommended Budget of the Superintendent of Schools*, dated January 4, 2022 (hereafter the "LPS Budget Book"), which details the budget plan for the Lexington Public Schools.
- The Capital Expenditures Committee (CEC) *Report to the 2022 Annual Town Meeting*, which provides recommendations on appropriation requests for capital projects, and an analysis of the Town's long-term capital planning.
- The Community Preservation Committee (CPC) *Report to the 2022 Annual Town Meeting*, which details requests approved by the CPC and funded using revenue from the CPA surcharge.

The LPS Budget Book is available online at:

<https://lexingtonma.org/lps-finance-and-operations/fy-23-budget>

All other reports for this Town Meeting will be available online at:

<https://www.lexingtonma.gov/2022atm>

Acknowledgments

The content of this report, except where otherwise noted, was researched, written and edited by Committee members who volunteer their time and expertise, and with the support of Town staff. We have the pleasure and the privilege of working with Town Manager James Malloy; Assistant Town Manager for Finance Carolyn Kosnoff (an ex officio member of our Committee); Budget Officer Jennifer Hewitt; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Permanent Building Committee; the Planning Board; Superintendent of Schools Dr. Julie Hackett; Assistant Superintendent for Finance and Operations David Coelho; and the Lexington Select Board. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report. Last but not least, we thank Sara Arnold, who records and prepares the minutes for our meetings.

Introduction

The Appropriation Committee is required to create a report with a review of the budget as adopted by the Select Board, including an assessment of the budget plan and a projection for future years' revenues and expenses. This report includes the Committee's analysis and recommendations regarding all appropriations of Town funds that are anticipated in the Town Warrant, and other municipal matters that may come before Town Meeting. This report is distributed as an electronic document via the Town website. The Committee also makes presentations during Town Meeting, including recommendations on appropriations and other matters for which the Committee's formal position was pending at the time of publication.

The Committee's goal is to publish its report at least one week prior to the start of the Annual Town Meeting (ATM), with the understanding that financial articles could be taken up on the first night of the ATM.

Previous reports from this committee were created using Microsoft Word. This report was authored using Wdesk, a cloud-based application from Workiva that the Town licenses for use in producing financial documents. This allows the report to be integrated directly with the Town's internal finance database, so that budget figures and projections are updated and presented in a timely fashion.

Committee Membership

Anil A. Ahuja was appointed to the committee shortly before the start of the 2021 Annual Town Meeting. Vineeta Kumar was appointed to the committee at the same time, but unfortunately, she was unable to serve due to a conflict with the Town Meeting Member Association's bylaws for its Executive Committee. The Committee presently has eight voting members with one vacant seat.

Reserve Fund

The Committee approved a Reserve Fund transfer of \$15,000 on March 22, 2021 to fund the Belmont Land Fill peer review. The remaining balance is \$735,000. As always, any remaining funds will revert to Free Cash at the end of the fiscal year.

Developments Since Adoption of the FY2022 Budget

The Committee has continued to meet virtually using the Zoom application.

At the November 2021-1 Special Town Meeting, the following appropriations were approved:

- \$870,000 for Police Station Architectural Design and Swing Space Construction.
- \$310,750 for CPA projects.
- \$770,000 in supplemental funding for construction of the new Westview Cemetery building.
- \$570,300 for the Capital Stabilization Fund.
- \$200,000 for the Transportation Demand Management/Public Transportation (TDM/PT) Stabilization Fund.

With the exception of the TDM/PT, these appropriations used funds derived from additional "new growth" in the tax levy above the initial projection in the FY2022 budget. The TDM/PT is funded by commercial property owners under agreements with the Town to support traffic-related work.

The Town's Community Center, which had been closed since March 2020, was re-opened to the public on August 18, 2021. The Recreation Enterprise Fund has since begun receiving revenue from user fees again, but the Town has determined that additional support for the Recreation Department is necessary and appropriate.

On February 9, 2022, the School Superintendent was notified that the MSBA may invite Lexington to collaborate with them in funding the renovation or replacement of Lexington High School.

FY2023 Revenue and Budget

The main body of this report contains the Committee's analysis of all the appropriation requests that make up the next fiscal year's budget. Here we discuss some of the overarching trends in Town finance.

The *FY2023 Recommended Budget and Financing Plan* (the "Brown Book") opens with the *Report of the Town Manager*. The first two tables below are taken from that section, which provides a comprehensive overview of the estimated revenue and proposed budget for the coming fiscal year.

Tax Levy Dedicated to Capital Stabilization Fund

Starting in FY2022, the budget incorporated a new line in the revenue summary for a portion of the tax levy that is earmarked for the Capital Stabilization Fund. This is based on a recommendation from the Town Manager's Financial Guideline Working Group which allocates a portion of new growth in the tax levy derived from development in commercially zoned areas of Lexington. For the prior year and this year, the dollar amounts are small, but in the coming years this earmark will grow in proportion to commercial development. This guideline will be suspended once debt service for a new or renovated Lexington High School begins.

Revenue Source	FY2022 Tax Recap	FY2023 Projected	\$ Change	% Change	% of Total Revenue
Property Tax Revenue	\$ 204,171,602	\$ 212,056,053	\$ 7,884,450	3.9%	81.4%
Tax Levy Dedicated to CSF	\$ 57,138	\$ 57,138	\$ —	—%	—%
State Aid	\$ 16,492,260	\$ 16,784,662	\$ 292,402	1.8%	6.4%
Local Receipts	\$ 12,627,933	\$ 13,488,108	\$ 860,175	6.8%	5.2%
Available Funds	\$ 17,825,379	\$ 18,507,776	\$ 682,397	3.8%	7.1%
Revenue Offsets	\$ (1,961,196)	\$ (2,331,557)	\$ (370,361)	18.9%	(0.9)%
Enterprise Receipts	\$ 1,432,356	\$ 1,805,613	\$ 373,257	26.1%	0.7%
Gross General Fund Revenues	\$ 250,645,473	\$ 260,367,794	\$ 9,722,321	3.9%	100.0%
Less - Revenue Set-Aside for Designated Expenses	\$ 16,678,401	\$ 19,896,592	\$ 3,218,191	19.3%	7.6%
Net General Fund Revenues	\$ 233,967,072	\$ 240,471,202	\$ 6,504,130	2.8%	92.4%

The Gross General Fund Revenue for FY2023 is projected to increase by 3.9%. State aid is estimated to grow by 1.8% this year, which is largely a result of diminished growth in Chapter 70 aid for education.

As usual, when the Town's "new growth" tax revenue is certified in the fall the tax levy may increase, resulting in higher gross revenue, and creating free cash in the current fiscal year that may be appropriated at a subsequent special town meeting.

The following table summarizes the FY2023 recommended budget in comparison to FY2022.

Budget Program	FY2022 Appropriated	FY2023 Recommended Budget	\$ Change	% Change
Education 1000	\$ 126,507,019	\$ 131,478,345	\$ 4,971,326	3.9%
Shared Expenses 2000	\$ 64,540,037	\$ 64,190,302	\$ (349,735)	(0.5)%
Municipal Departments 3000-8000	\$ 42,920,017	\$ 44,802,554	\$ 1,882,537	4.4%
Subtotal - Operating Budget	\$ 233,967,073	\$ 240,471,201	\$ 6,504,128	2.8%
Cash Capital	\$ 10,136,491	\$ 13,491,037	\$ 3,354,546	33.1%
Other (Approp. to reserves, misc.)	\$ 6,541,910	\$ 6,405,555	\$ (136,355)	(2.1)%
Total - General Fund	\$ 250,645,474	\$ 260,367,793	\$ 9,722,319	3.9%

The proposed budget is balanced, as required by law, and it will provide the consistent and reliable level of service that is expected by residents. The 2.8% growth of the operating budget is low, but it was affected by a short-term drop in debt service, which is part of the Shared Expenses. The other two categories, Education and Municipal Departments, are more in line with expectations based on revenue growth. The year-over-year reduction the "Other" category is driven largely by a lower contribution to the Capital Stabilization Fund.

Program Improvement Requests

A Program Improvement Request (PIR) is part of the Town's process to develop an annual operating budget. The Town first develops a "level service" operating budget that supports existing services at a rate comparable to the prior year. Each PIR is a proposal from a Town department to update or initiate new services funded by the operating budget. The Town Manager reviews and approves PIRs for the recommended budget. Once confirmed by Town Meeting, PIRs become part of the "level service" operating budget in subsequent years. Thus, PIRs offer a transparent view into the growth of the budget beyond the core economic drivers.

Below is a summary of the PIRs related to the municipal budget that have been recommended for approval. PIRs for the LPS are covered in the school budget and are not listed here.

Department	Recommended Funding	Article Reference
Public Facilities	\$ 43,796	Article 4
Public Works	\$ 26,967	Article 4
Public Safety	\$ 144,566	Article 4
Culture & Recreation	\$ 127,363	Article 4
Land Use, Health and Development Department	\$ 41,184	Article 4
General Government	\$ 62,437	Article 4
Total General Fund Requests	\$ 446,313	

Public Facilities

- Department 2600 Public Facilities - \$43,796 to enhance the role of the Management Assistant to manage the 20-year old capital database, increasing the FTE from 0.5 to 1.

Public Works

- Department 3100 DPW Administration & Engineering - \$24,471 to make the DPW Management Analyst full-time.
- Department 3400 Environmental Services - \$2,496 to upgrade a W-6 position at the Hartwell Avenue compost site.

Public Safety

- Department 4100 Law Enforcement - \$42,447 to support enhanced police training under the new state certification requirements.
- Department 4100 Law Enforcement - \$45,450 in anticipation of the need for staff to transport detainees to another location once the police move to their temporary location.
- Department 4100 Law Enforcement - \$8,036 to fund a third crossing guard on Marrett Road for the Hastings Elementary School.
- Department 4200 Fire & Rescue - \$48,633 to purchase a training manikin to allow staff to practice their life support skills.

Culture & Recreation

- 5200 Recreation & Community Programs - \$47,000 for a vehicle replacement.
- 5200 Recreation & Community Programs - \$25,363 for a part-time Recreation Coordinator at the Community Center.
- 5200 Recreation & Community Programs - \$55,000 for printing & mailing a program guide.

Land Use, Health and Development Department

- Department 7120 Administration - \$5,000 for reprinting ACROSS Lexington brochures.
- Department 7140 Health - \$36,184 to increase the Public Health Nurse position to full-time.

General Government

- Department 8100 Select Board - \$20,000 to fund the goal-setting process for the Select Board.
- Department 8500 Town Clerk - \$30,500 to purchase electronic poll pads for each precinct in Lexington, increasing efficiency and reducing the need for paper reports.
- Department 8600 Innovation & Technology - \$6,937 to increase the hours for an administrative assistant.
- Department 8600 Innovation & Technology - \$5,000 to maintain a redundant network anticipated to be installed in FY2023 using either capital or ARPA funding.

The Brown Book's Appendix A provides a complete list of PIRs, including those not included in the recommended operating budget.

Updates

This report presents the official positions of the Committee as of the date of publication. The Committee will continue to meet as necessary prior to and during Town Meeting and it may revise its official positions based on new or updated information. In a typical year, the Committee also reports orally to Town Meeting on each article. The oral report summarizes the Committee's current position, which may have been updated following publication of this report.

Warrant Article Analysis and Recommendations

2022-1 SPECIAL TOWN MEETING

Article 2 Appropriate for 1575 Massachusetts Avenue / Police Station Replacement

Funds Requested	Funding Source	Committee Recommendation
Unknown	GF Debt	Approve (8-0)

This article request funds to cover construction costs for building a new Police Station. Plans call for a 34,000 sq ft building to be constructed on the Massachusetts Avenue site of the current Police Station. Final approval of this appropriation will only occur after a community vote to approve an override of Proposition 2½ to fund the project debt.

The existing police station opened in 1956 and lacks many of the basic amenities found in modern police facilities, and it does not comply with current building codes. For example, the building does not have an elevator nor does it have a sally port for secure access to the cellblock. The building lacks a fire sprinkler system and does not meet seismic safety requirements. The indoor firing range, locker rooms, garage, equipment storage, evidence storage, and office spaces are inadequate. Bathrooms in the basement and the second floor levels are not ADA compliant. The heating and cooling systems are inefficient and the building is serviced by two separate electrical systems, which cause problems during power outages.

The current department has 73 FTE's. This includes 8 command officers, 34 patrol sergeants and officers, 8 detectives, 10 civilian dispatchers, school crossing guards, and administration staff. (see Brown Book page VI-5). Lexington's FY2021's per capita police spending of \$207 is below the state average of \$232. Lexington police spending is 3.4% of total expenditures, below the state average of 7.4%.

The new building is designed to correct existing deficiencies, and it will meet the needs of the department. It is designed to satisfy current and future department needs with properly sized locker rooms and evidence storage. The floor plan and office space can accommodate policing that includes social services and mental health services. An indoor garage, a two-bay vehicle maintenance area, and correctly designed and sized equipment storage areas will help preserve and maintain equipment throughout its expected life. Additionally, the main entrance will feature a front desk situated in a generous foyer, meeting rooms, and publicly accessible rest rooms, making it easier for the community to interact with the department.

Funding for this project started with an appropriation of \$65,000 for a Police Station Feasibility Study under Article 5 of the 2016 September Special Town Meeting. Article 14 of the 2018 Annual Town Meeting appropriated \$1,862,622 for design and engineering costs to build a new Police Station at the current Massachusetts Avenue site of the Police Station. At that time, it was envisioned that a request for construction funds would be made late in 2019 or in 2020. However, the nationwide discussion on police and policing that stemmed from the killing of George Floyd caused the Select Board to pause the project. They began a community conversation here on policing and the effect it would have on the proposed Police Station. Article 5 of the 2021 Fall Special Town Meeting appropriated \$614,100 of construction funds to convert 173 Bedford St to a temporary Police Station, and \$254,315 for a supplemental appropriation to pay for additional architectural work to incorporate the results of the community discussion into the final plan for the new Police Station. Total costs, including this appropriation, will exceed \$35 million.

While the committee agrees that the current size, floor plan, and facilities meet the goals needed in a new Police Station, we are concerned that acute inflationary trends may result in bids that exceed the requested appropriation. We have been assured that the architect's cost estimate was completed very recently, and we hope that it incorporates factors driving the price volatility in the construction market.

If this appropriation is approved by Town Meeting, the construction funds will be contingent on approval of exclusion of the debt service from the usual limitations of Proposition 2½ in a referendum anticipated to be held

early in June of 2022. Bids would not go out until a successful vote. Construction on the Police Station would begin in the fall of 2022.

This appropriation and the most aspects of the prior appropriations for design money would be funded with the approved exempt debt. The term of this debt would range from 10 years to up to 30 years, depending on the specific parts are being financed. This debt, as well as debt for a future high school project, have been included in the Town's debt service projections. These projections are guiding how to fund the Capital Stabilization Fund, and how to best use that fund to mitigate debt service driven increases in property taxes.

2022 ANNUAL TOWN MEETING

Article 4 Appropriate FY2023 Operating Budget		
Funds Requested <i>See below</i>	Funding Source <i>See below</i>	Committee Recommendation Approve (8-0)

To see if the Town will vote to make appropriations for expenditures by departments, officers, boards and committees of the Town for the ensuing fiscal year and determine whether the money shall be provided by the tax levy, by transfer from available funds, by transfer from enterprise funds, or by any combination of these methods; or act in any other manner in relation thereto.

See the most recent version of the FY2023 budget proposals posted at <http://lexingtonma.gov/budget>.

DESCRIPTION: This article requests funds for the FY2023 (July 1, 2022 - June 30, 2023) operating budget. The operating budget includes the school and municipal budgets. The operating budget includes requests for funds to provide prospective salary increases for employees, including salaries to be negotiated through collective bargaining negotiations. The budget also includes certain shared expenses.

The Operating Budget is broken out by major categories based on budget line numbers below.

Education (1000)

Program 1000 Education	FY2022 Budget	FY2023 Recommended	% of Education	\$ Change	% Change
1100 Lexington Public Schools	\$ 123,376,981	\$ 128,254,447	97.5 %	\$4,877,466	4.0 %
1200 Regional High School	\$ 3,130,038	\$ 3,223,898	2.5 %	\$ 93,860	3.0 %
1000 Total Education	\$ 126,507,019	\$ 131,478,345	100 %	\$4,971,326	3.9 %

Lexington Public Schools (1100)

The School Committee has voted to recommend an appropriation of \$128,254,447 for the Lexington Public Schools (LPS) operating budget for FY2023. This amount does not include:

- The school portion of Shared Expenses (2000), below, including public facilities, employee & retiree benefits, pension, debt service, liability insurance, and reserve funds.
- Revenue from federal, state, local, and private grants, or revolving and donation fund activity, none of which are subject to appropriation by Town Meeting.

The request represents an increase of 4.9% over the FY2022 appropriation.

Further information about the budget request may be found in the "Education" section of the Brown Book and in the LPS Budget Book.

A breakdown of this operating budget into salaries and wages, and expenses is shown below.

Category	FY2022 Budget		FY2023 Recommended		\$ Change	% Change
Salaries & Wages	\$	102,654,658	\$	106,450,152	\$ 3,795,494	3.7 %
Expenses	\$	20,722,323	\$	21,804,295	\$ 1,081,972	5.2 %
1100 Lexington Public Schools	\$	123,376,981	\$	128,254,447	\$ 4,877,466	4.0 %

Source: Lexington Public Schools FY2023 Superintendent's Recommended Budget, January 5, 2022; Budget Overview - page 10

School enrollments

The student population that the district serves includes the following categories:

- PreK in-district including special education and tuition-paying general education students;
- K-12 in-district general education and special education (including METCO);
- PreK-22 out-of-district placement.

This table shows student enrollments for the past three years and the enrollment projected for the fall of 2022. In more normal years, enrollment figures have sometimes been somewhat volatile, and trends are difficult to spot. This applies even more strongly this year, so a generous level of flexibility is warranted. That said, school enrollment may be leveling off. Some grade levels rebounded from the 2020 pandemic-related drop (Lexington High School), but other grades have not (elementary schools).

	Oct. 1, 2019 Enrollment	Oct. 1, 2020 Enrollment	Oct. 1, 2021 Enrollment	Projected FY2023 Enrollment
Early Childhood	68	57	67	67
Elementary	3,019	2,790	2,709	2,637
Middle School	1,828	1,793	1,748	1,728
High School	2,275	2,261	2,273	2,272
Total	7,190	6,901	6,797	6,704

Salaries and Wages

In FY 2023, salaries and wages were increased by \$3,795,494 (3.7%) to support cost of living adjustment increases for current personnel, lane changes, and step increases. Salaries and wages make up 83% of the FY2023 request, the same percentage as in FY2022. A net decrease of 1.3 full time equivalent (FTE) employees reflects consolidation of positions and departments where appropriate. See the LPS Budget book page "Recommended Budget -2" for a list of positions that will be consolidated, eliminated, or created.

Salary and wage changes result from changes in the number of employees, step increases, cost of living adjustments (COLA), and position reclassifications. The 2023 budget includes both anticipated collective bargaining unit settlements and increases for non-union positions into account. The effective dates of the most recent collective bargaining agreements may be found in the LPS Budget Book on page "Budget Overview -10."

Expenses

Expenses make up 17% of the FY2023 budget request. The increase of \$631,630, to \$9,420,447 (7.2%), in special education out-of-district tuition is the largest for any single line in the detailed expense budget (see the "Expenses" section of the LPS Budget Book). We note that both this and previous school budgets are based on projected net expenses after the projected application of revenue that is not appropriated. Such revenue includes "Circuit Breaker" funds and substantial special education grant funds, but not monies from stabilization funds which do require appropriation. A detailed overall picture of funding of out-of-district tuition may be found in the LPS Budget Book on page "9000 Programs with Other School Districts - 6". There one may see that the net total of out-of-district tuition expenses in 2022 are \$813,367 lower than was projected. For 2023, projected net tuition is rebounding to \$15,872,941 - an increase of \$1,372,381 (9.5%) over 2022, or \$559,214 above 2022 projected levels.

This increase is partly due to an increase in funding requests by private special-education schools, which must provide notice of tuition increases to public schools by October 1 for the following fiscal year. In FY 2022, tuition increases were \$8,300, limited to a single school where a Lexington student attended. For FY 2023 the District has twelve students attending five schools that have requested increases, with a potential total increase estimated at \$90,000.

Lexington currently is a member of the LABBB Collaborative, and the District also sends students to other non-member collaborative programs. For the last several years a 4% increase has been assumed for Collaborative tuitions. Additionally, a 4% increase has been assumed for OSD approved out-of-state private schools as the rate increases are not set by OSD but rather the respective state agency where the school is located. FY 2023 hourly rates for 1:1 aides at out-of-district schools are also increasing more than usual, likely due to COVID-related staffing shortages. Lexington Public Schools have budgeted for a 4% increase in aides' compensation. but it could be more.

The expense budget also includes sizable increases for transportation costs for regular education students (\$143,943) and special education students (\$375,296), as well as emergency planning and training (\$100,500). The budgets for expenses for all schools except Estabrook and Diamond have been reduced due to the impact of enrollment changes.

Benefits

The cost of the benefits associated with school staff is included under Shared Expenses (see below). In most recent years the net number of school positions increased and thereby contributed to increases in the costs of the associated benefits. Any change in the total cost of benefits for school staff would flow from changes in the number of employees, individual changes in benefits choices, and changes in per capita benefits costs.

Funding Sources Not Subject to Appropriation

The annual appropriation through the operating budget supports the majority of the school budget. However, LPS will also expend funds from state, federal and other sources that are not subject to appropriation by Town Meeting and are therefore not included in the request under this article. The amounts of these funds vary year to year. Some of these sources of funds are:

- *Federal Grants* –In the current budget year (FY 2022), the Town and schools have benefited from Covid-19 related aid through the federal CARES act. For FY2023, the School Department does not expect to receive this funding again. Instead, the School Department expects to receive \$2,239,084 in federal grants. See the LPS budget book Grant Fund Summary--2 for details on these grants.
- *State Grants* – The School Department projects that it will receive \$1,767,131 in FY2023 from the state METCO program, which represents no change from FY 2022. Based on the 2021-2022 enrollment of 220 students, the projected state aid averages to \$3372 per METCO student. Cherry-sheet local aid for education, i.e., Chapter 70 aid, is treated as General Fund revenue and is not included in state grants.
- *“Circuit Breaker” Reimbursements* – Reimbursements are received from the state when the costs of special education services for an individual student, whether in-district or out-of-district, exceed a multiple of four times the statewide foundation budget. In the past, reimbursement rates have varied between 35% and 75% of the tuition cost. Circuit Breaker reimbursement funds are paid to the district quarterly based on the prior year's approved claims. Funds received go into the Circuit Breaker Revolving Account, do not require further appropriation, and must be expended by June 30 of the following fiscal year. The Lexington Public Schools current practice is to apply a large fraction of the funds received in a given fiscal year (based on SPED expenses in the prior fiscal year) as a revenue offset in the following fiscal year. For example, LPS will receive (or has received) a reimbursement in FY2021 based on FY2020 SPED expenses and will use most of that reimbursement to offset SPED costs in FY2022.

A detailed exposition of the LPS Circuit Breaker funding may be found in the LPS Budget Book on page “Revenue Offsets – 5”. In brief, the District projects a 70% reimbursement rate and that \$5,115,409 will be received in FY2022 and then be available for expenditure in FY2023. The Circuit Breaker reimbursement in FY2023 is projected to be \$4,548,402. The requested budget assumes that \$866,580 in the reimbursements to be received in FY2023 will be spent in FY2023, and thereby leave less to be expended in FY2024.

Fee Programs

Fees for participants in certain programs, such as preschool, athletics, and transportation, support those programs in whole or in part. Detailed information about the fees and proposed fee changes may be found in the “Revenue Offsets” section of the LPS Budget Book.

Regional High School (1200)

Lexington's FY2023 projected assessment for the Minuteman Regional High School (MRHS) of \$3,223,898 represents an increase of \$93,860, or 3%, over FY2022. It follows on the prior year's increase of 9% and an increase of 15.9% from FY2020 to FY2021. While Lexington's four year rolling average enrollment, the enrollment number that our assessment is based on, grew from 59.38 to 63 students, our assessment increase is modest because Lexington's enrollment growth is lower than that of the district.

The District's Budget

The Minuteman Regional High School (MRHS) Committee has approved a FY2023 budget of \$29,010,622, a \$1,370,034 increase (+5.0%) over FY2022. The increase is the net effect of a 7.2% increase in the cost of operations and a \$33,000 decrease in debt costs attributable to construction of the new MRHS building and athletic fields.

This budget funds the fourth year of operations in the new school building, which was designed for an enrollment of up to 628 students. Response to the new facility has been very strong and current high school enrollment is 655 students. 538 students come from the 9 member towns of the school district, and 117 students come from out-of-district communities.

District Developments

While it was anticipated that the new school building would drive increased applications, the success continues to exceed expectations. For the last three years and for the upcoming year more than 200 applications have been received from in-district students. In-district students are given priority, and for three consecutive years almost all of the incoming freshman class will be in-district. This enrollment trend means that by FY2025 the school enrollment will consist entirely of in-district students. Based on applications received to date, total school enrollment is expected to near 700 students in September 2022.

Enrollment	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	*FY 20	FY 21	FY 22	FY 23 est
In-district	409	437	410	391	347	337	354	395	467	538	621
Out-of-district	340	356	332	277	271	231	162	207	167	117	80
Total	749	793	742	668	618	568	516	602	634	655	701

** new school occupied*

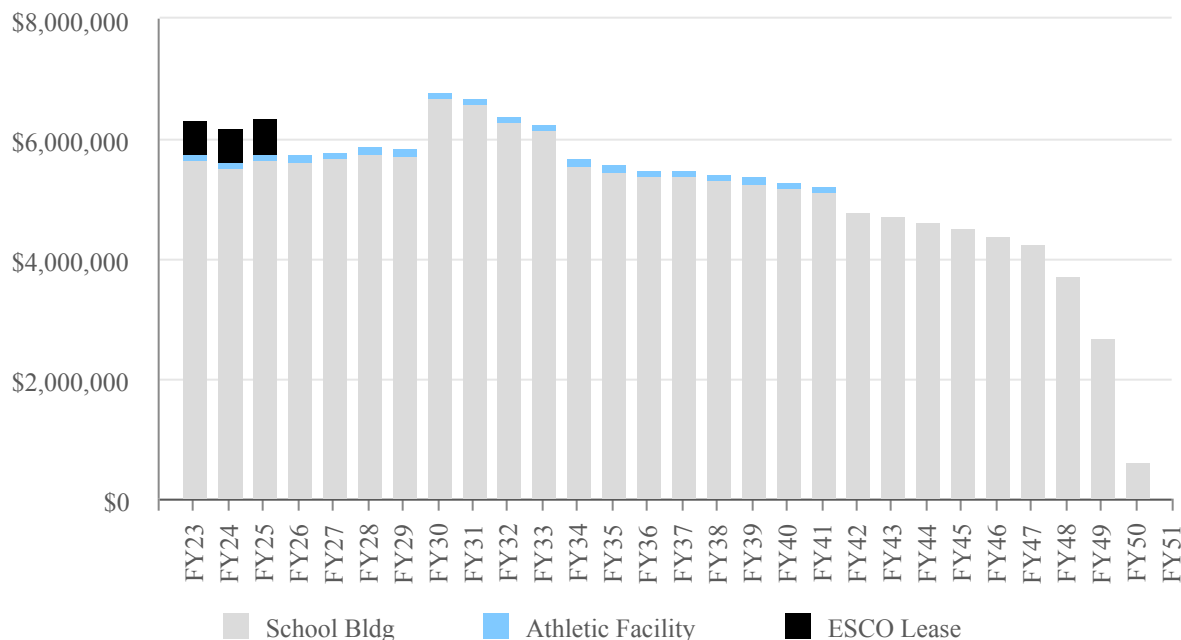
This strong enrollment has the district planning to increase school capacity to 800 students, allowing all graduating classes to be in the range of 200 students. The flexible design of the school's technical training spaces would allow this higher capacity, so the limiting factor is providing sufficient academic space. In anticipation of accommodating future enrollment needs at total annual contribution of \$500,000 is budgeted for the Capital Stabilization Fund, \$150,000 more than FY2022 contribution.

The lack of space for accepting out-of-district students also means that the revenue derived from tuition and capital fees will no longer be available to offset member town assessments. It is important to note that out-of-district tuition, whose rates are set by the State, was never high enough to fully cover the actual per-student costs; and that MRHS did not receive the Chapter 70 State Aid money for those students, it was sent directly to the out-of-district community. It is estimated that by FY2025 member towns will be fully funding the district's operations and debt service through their assessments.

In November 2020 the District School Committee selected an athletic field plan that included lighting the fields. This feature satisfies the school's requirements, and also allows the fields to be available for rental to local teams and leagues outside of school hours. Member towns approved the necessary additional \$1,900,000 bonding required to fund the enhanced project with the understanding that the rental income could significantly offset the field maintenance and debt service. The fields should be completed by April 2022 and rentals will commence in the spring. Rental income will be posted to their Facilities Revolving Fund. While this revenue will not show in their revenue plan, the revolving fund revenue will be used to offset overhead and will result in a reduction in that line item starting with the FY2024 budget.

The district's long-term capital and debt obligations last through FY2050 and are summarized in the chart below.

District Debt Service - FY2023-FY2051



The ESCO Lease is for equipment from the prior school building and is paid with assessments from all member towns that were in the district when the lease began. The debt service for both the school building and the athletic facility project is funded via assessments to district members and by a new state-authorized facilities fee for capital costs charged to non-member towns that enroll students at the school. This fee is set by the Department of Elementary and Secondary Education (DESE) and towns are classified by whether they offer at least five Chapter 74 (vocational-technical) programs. Of the facilities fees collected in FY2022, \$289,332 is available to be applied to the FY2023 budget. Additionally, \$300,000 of anticipated FY2023 collections will be used to directly fund the FY2023 budget. The per-student charge in FY2023 has still not been set by DESE, but for towns lacking access to vocational-technical education is estimated to be \$8,900 and \$6,700 for towns that have programs.

According to FY2020 state data, MRHS continued to have the highest average per-pupil costs of any Massachusetts regional vocational district (RVD). At that time the per-student average cost was \$34,116, compared to the RVD average cost of \$25,644. MRHS had the second lowest teachers/100 students ratio when compared to RVD due in part to its 47% enrollment in special education (SPED). This is the highest level of SPED students in any public school in the state (the average is 18%). This level is similar for students coming from both in-district and out-of-district communities. MRHS had 11.8 teachers/100 students, with an RVD average of 9.47 teachers/100 students. Additionally, the high per student cost is also tied to the fact that MRHS has the highest average teacher pay, at \$112,834, compared to the RVD average of \$87,615, and the next highest district average of \$99,469.

Towns sending out-of-district students are responsible for providing transportation to their students and are subject to additional fees beyond the base tuition. In addition, these towns are assessed a per-student “facilities fee” which represents a share of the debt service for new building. This facilities fee revenue is applied to that debt service, reducing assessments for member towns. Sending towns are also assessed tuition for supplemental SPED services when their students require them. The district will be recommending to DESE that the out-of-district per-student SPED tuition be increased to \$7,100 in order to cover actual costs. DESE set the base out-of-district tuition rate at \$18,679 per student in FY2022 with an expected increase for FY2022 to be recalculated in March. This does not cover the full cost of a district education, nor is the State Chapter 70 aid for out-of-district students sent to MRHS.

District Budget Overview

The FY2023 budget includes efforts to handle the continued growth in enrollment, the reduced amount of out-of-district tuitions and fees, and address student educations and wellness needs in the post-pandemic world. The district will also be monitoring the facilities needs of the new building in an effort to properly budget for ongoing operational costs. This budget also includes multi instances of staff being reclassified to different line items.

Additionally, with the retirement of Superintendent Dr Edward Bouquillon at the conclusion of the current school year, the district welcomes Dr Kathleen Dawson as new superintendent.

Staffing changes include a net increase in staff of 4.0 FTEs. These changes include a 0.5 FTE reading aide, 1.5 FTE's of instructional staff, and 2.0 FTE's guidance counselors. Also budgeted is an additional 2 FTE's for substitute teachers. Debt service is almost 24% of the total budget, and salaries comprise almost 46% of the budget. (This ratio is atypical because unlike most public schools, this budget includes major capital expenses.) Contractual obligations include a cost-of-living increase of 2% with a net growth in salaries of \$65,872. Funding for technology, allowing each student to have a computer and to provide for remote learning, will increase by \$20,871. Utilities and heating expenses will increase \$46,300, and a commitment to provide proactive facilities maintenance increases those line items by \$36,000.

While health insurance rates are projected to rise 10%, the budget reflects a slight net decrease because the actual FY2022 total expenses declined due to the introduction of lower rates negotiated after the budget was accepted. Transportation cost have grown \$97,000 (6.62%) due to a 5% CPI increase in the bus contract and an increase in the number of in-district students. A \$60,000 payment will be made toward the funding of the district's \$26,124,691 Other Post-Employment Benefits (OPEB) unfunded liability.

Roughly 23% of the revenue in the MRHS FY2023 budget comes from a combination of state aid, reserves, and fees shown in the table below, down from 30% in FY2022, due to reduced out-of-district enrollment. In total, this non-assessment revenue decreases by \$464,315 in FY2023. Chapter 70 funds and transportation aid are estimates based on the Governor's H-1 budget. MRHS's share of Chapter 70 aid increases 2.1% and Transportation Aid increases 32.6%, due to increased in-district enrollment. Chapter 70 aid is based on October 2021 enrollments, and Transportation Aid is based on bussing expenses incurred in FY2021.

Revenue Sources	FY2022	FY2023	Change \$
Chapter 70	\$ 1,986,977	\$ 2,028,744	\$ 41,767
Transportation Aid	\$ 776,382	\$ 1,029,441	\$ 253,059
Prior Year Tuition	\$ 2,695,837	\$ 1,367,364	\$ (1,328,473)
Current Year Tuition	\$ 1,080,000	\$ 950,000	\$ (130,000)
Excess and Deficiency (E&D) Funds	\$ 540,000	\$ 650,000	\$ 110,000
Current Year Nonresident Capital Fee	\$ 508,033	\$ 289,332	\$ (218,701)
Prior Year Nonresident Capital Fee	\$ 591,967	\$ 300,000	\$ (291,967)
Assessments	\$ 19,461,392	\$ 22,395,741	\$ 2,934,349
TOTAL	\$ 27,640,588	\$ 29,010,622	\$ 1,370,034

Lexington's Assessment

The remainder of the revenue is raised through assessments on member towns and tuition for out-of-district students. Member towns are assessed a share of the District's total costs for the upcoming year, net of the District's non-assessment revenue, based on four components:

1. The State-Required Minimum (SRM) per-student tuition cost set annually by the DESE,
2. An additional charge for operating costs in excess of the SRM that is allocated based on the four-year average student enrollment,
3. Transportation costs,
4. Debt service costs from capital projects.

The first three assessment components fund the member's share of the school's operating costs. Debt service is charged to member towns using a two-part formula. One percent of the debt service cost is assessed equally to all member towns, and the remainder is apportioned based on the most recent four-year rolling average of student enrollment and the State's "combined effort" factor as determined by the Chapter 70 formula.

A breakdown of the Town's FY2022 and FY2023 MRHS assessments is shown below. The projected assessment for FY2022 is \$3,223,898, an increase of \$93,860 (3%) over the final FY2022 assessment.

Projected Lexington Assessment – Based on Unapproved House-2 Budget Bill

	Enrollment Basis		Assessment Components		Per-Student
	FY2022	FY2023	FY2022	FY2023	FY2023
State-Required Minimum	77	68	\$ 1,156,993	\$ 1,158,939	\$ 17,043
Regular Day Students*	59.38	63	\$ 935,559	\$ 969,283	\$ 15,385
Transportation	77	68	\$ 109,594	\$ 78,524	\$ 1,155
Total Operating Costs*			\$ 2,202,146	\$ 2,206,746	
Debt Service*	59.38	63	\$ 927,892	\$ 1,017,152	\$ 16,145
TOTAL ASSESSMENT			\$ 3,130,038	\$ 3,223,898	
Annual % increase (decrease)			9.32%	3.00%	

* Starred rows in this table use average enrollment over the prior 4 years, while non-starred rows use current enrollment. The respective per-student amounts cannot be combined arithmetically.

The **FY2023** operating cost assessment per student (excluding debt service) works out to \$32,452 (based on Lexington's October 2021 enrollment of 68 students), an increase from last year's per-student cost of \$31,016. Due to the assessment formula, during periods of growing enrollment the assessed per-student amount lags behind short-term enrollment trends. A rising enrollment will tend to lower per-student costs (and vice versa) until the 4-year average stabilizes. Enrollment from other member towns can also affect this figure, as Lexington's percentage of the total member enrollment changes.

We anticipate further changes to the projected revenues and budgeted expenses in the MRHS budget following publication of this report. It is likely that the assessment will be adjusted prior to being presented to Town Meeting.

Shared Expenses (2000)

Shared Expenses covers appropriations for various activities that serve multiple departments but are managed or carried out by a single office. Although these amounts do not appear in the budgets of LPS or individual municipal departments, most are driven primarily by the complement of employees of or the facilities and capital equipment used by the various departments. Others, including insurance premiums and payments related to solar energy facilities, concern the overall operation of the Town.

As shown in the table below, over 61% of shared expenses fund employee benefits, which are administered by municipal staff, but which are driven by current and past staffing decisions made by both LPS and the municipal departments. The second largest line item supports facilities managed by the Public Facilities Department for use by LPS and municipal departments. The third largest line item is within-levy debt service, which is administered by the Finance Department. Debt service is driven by current and past capital expenditures and financing decisions.

For FY2023, the \$750,000 appropriation for the Reserve Fund is at the same level as in FY2022. For a longer-term history, see Brown Book Appendix C, "Summary of Reserve Fund Transfers."

Program 2000 Shared Expenses	FY2022 Restated	FY2023 Budget	% of Shared Expenses	Change \$	Change %
2100 Employee Benefits & Insurance	\$ 39,754,560	\$ 41,744,415	65.0%	\$ 1,989,855	5.0%
2200 Property & Liability Insurance	\$ 1,095,000	\$ 1,095,000	1.7%	\$ —	—%
2300 Solar Producer Payments	\$ 390,000	\$ 390,000	0.6%	\$ —	—%
2400 Within-Levy Debt Service	\$ 10,397,112	\$ 7,541,580	11.7%	\$ (2,855,532)	(27.5)%
2500 Reserve Fund	\$ 750,000	\$ 750,000	1.2%	\$ —	—%
2600 Facilities	\$ 12,153,365	\$ 12,669,307	19.7%	\$ 515,942	4.2%
TOTAL	\$ 64,540,037	\$ 64,190,302	100.0%	\$ (349,735)	(0.5)%

The recommended total Shared Expenses budget for FY2023 is \$64,190,303, representing a decrease of \$349,735 or 0.5% from the restated amount for FY2022.

Employee Benefits & Insurance (2100)

As shown in the table below, Line 2100 includes costs for retirement; health, dental, and life insurance; workers' compensation, unemployment insurance, and the Medicare tax. The total request for Employee Benefits and Insurance is \$41,744,415, a \$1,989,855 (5%) increase over the FY2020 appropriation. The table below provides a breakdown of the benefits budget by category.

Benefits Category	Amount	Percentage
Retirement	\$8,176,027	19.6%
Medicare	\$2,054,651	4.9%
Health Insurance	\$29,554,494	70.8%
Dental Insurance	\$1,109,243	2.7%
Life Insurance	\$25,000	0.06%
Unemployment	\$200,000	0.5%
Workers Compensation	\$625,000	1.5%
TOTAL	\$41,744,415	100.0%

Virtually all of the appropriation for retirement will go toward the contributory retirement (pension) program, i.e., into the Retirement Fund; a very small portion will go toward non-contributory retirement benefits for the few employees who retired prior to the establishment of the contributory retirement program. The appropriation will address both current year payouts from the Retirement Fund and an amount that moves the Fund toward full funding of the Town's pension liabilities. To fully fund these liabilities, the Retirement Board has increased the planned appropriations into the Retirement Fund and has stretched out the funding schedule by two years, i.e., to 2030. For FY2023, the recommended contributory retirement appropriation is increasing by 10.0% to \$8,159,250. Of that amount, \$400,000 will be being funded via Free Cash, as was done for FY2022. In the Retirement Board's present plan the appropriations under this line item will increase by \$750,000 per year until 2030. Once the full funding goal is reached, and, assuming the full-funding status is maintained, the annual costs for contributory retirement will be significantly lower.

Health insurance costs make up the bulk of the Employee Benefits budget. The FY2023 request for health insurance is \$29,554,494, which represents a 4.5% increase over the estimate for FY2021. The Town remains a member of the State's Group Insurance Commission (GIC) health insurance program, which has helped hold down the rate of cost increases. Since joining the GIC program in FY2016, the FY2023 split of healthcare premiums between employer and subscribers is 82/18 or 75/25 depending on the health plan chosen by the employee (the town pays a larger share for employees who choose a lower cost plan). The Brown Book, on pp. IV-6 and IV-7, contains a discussion of health-benefit costs, including changes in the numbers of subscribers since FY2017. The projected number of subscribers used for the FY2023 budget represents a 2% increase over FY2022 and a 12% increase since FY2017.

Solar Producer Payments (2300)

This line item reflects payments for the installation and operating costs of the solar array at the Hartwell Ave compost facility. Against the annual cost of \$390,000, which covers both the initial capital cost and maintenance costs, staff estimates that the array will generate net-metering credit payments from the electric utility Eversource, payments in lieu of taxes, and a small amount of lease income, so the array is projected to generate a net contribution to the General Fund of \$336,400.

Note this budget item does not include the Town's rooftop solar arrays and payments in lieu of taxes for the solar operations, which are recorded under personal property taxes per the Massachusetts Department of Revenue. The Brown Book includes tables on [p. IV-11](#) that present a more complete set of estimates for the Town's solar installations, with projected net revenues of \$492,900 in FY2023.

Debt Service (2400)

Line item 2400 covers annual payments for within-levy debt service. Gross within-levy debt service is projected to decrease by about 27% as indicated in the table above because the debt incurred for the purchases of real estate on Pelham Rd. and Bedford Street has been retired. When the set asides for the payments stemming from these real estate purchases as well as certain cemetery revenues are removed from the FY2022 gross debt service totals, the net amount debt service is projected to decrease by 6.2%, which is, of course, below the Town's target annual

growth ceiling of 5.0%, so there is no recommendation to use the Capital Stabilization Fund as a funding source this year (FY2023).

The Town also makes annual payments for exempt debt service, but the funds for these payments do not need to be appropriated by Town Meeting. Every project funded with exempt debt must be approved by a majority of voters in a town-wide referendum, after which the Select Board sets the tax levy to provide sufficient funding. The portion of the tax levy raised for exempt debt service is exempt from the limits imposed by Proposition 2½. There is a recommendation to appropriate \$800,000 from the Capital Stabilization Fund to mitigate the exempt debt portion of the property tax. See pp. IV-12 and IV-13 in the Brown Book for details on exempt debt.

Staff estimates that the combined gross debt service for exempt and non-exempt debt will decrease by 10.15% from the prior fiscal year. For more details, see the Debt Service section in the Brown Book.

Reserve Fund (2500)

The Reserve Fund provides funding for time-critical extraordinary and unforeseen expenses, i.e., funding that obviates the need to wait for a town meeting appropriation. While requests for transfers from this fund require formal approval by the Appropriation Committee, they are generally initiated by Town or LPS staff or the Select Board.

The FY2023 requested appropriation for the Reserve Fund is \$750,000, the same amount as appropriated in FY2022. In FY2019 the fund remained unused. In FY2020, \$100,000 was transferred to the Fire Department to offset increases in spending due to the Town's response to the COVID-19 pandemic. In FY2021, \$15,000 was transferred to the Conservation Department in response to a Letter of Map revision from the Town of Belmont, i.e., to potential changes in areas that are designated to be at high risk of flooding. In FY2022, no transfers out of the Fund have yet been approved.

At the end of the fiscal year any unused funds in the Reserve Fund flow to Free Cash.

Public Facilities (2600)

The Department of Public Facilities manages the operation, maintenance, utilities, and custodial servicing for Lexington's municipal and school buildings. This Department also manages recurring maintenance of roofs, building envelopes, and all building systems including HVAC, as well as other priority facility-related projects. In addition, the Department supports efforts to plan major renovations, building replacement, or new building construction. The FY2023 Public Facilities General Fund operating budget is \$12,669,307, which represents a 4.3% increase over FY2022. The budget request includes \$27,000 in this line item and \$16,796 in benefits to upgrade an administrative position from part-time to full-time.

Municipal (3000-8000)

The municipal operating budget comprises all line items from 3000 to 8999. As shown in the table below, the FY2023 Recommended Budget of \$44.8 million represents a \$1.9 million or 4.39% increase. The largest components of the municipal budget are those for Public Safety, the DPW, and General Government.

Municipal Budgets	FY2022 Restated	FY2023 Recommended	Change \$	Change %
3000 Public Works	\$ 11,528,143	\$ 11,968,145	\$ 440,002	3.82%
4000 Public Safety	\$ 16,113,457	\$ 16,333,845	\$ 220,388	1.37%
5000 Culture & Recreation	\$ 3,156,348	\$ 3,336,219	\$ 179,871	5.70%
6000 Human Services	\$ 1,277,465	\$ 1,527,421	\$ 249,956	19.57%
7000 Land Use, Health & Development	\$ 2,693,989	\$ 2,792,613	\$ 98,624	3.66%
8000 General Government	\$ 8,150,615	\$ 8,844,311	\$ 693,696	8.51%
TOTAL	\$ 42,920,017	\$ 44,802,554	\$ 1,882,537	4.39%

Public Works (3000)

The recommended appropriation for Public Works of \$11,968,145 represents a 3.82% increase over FY2022. Of the total, 91.8% is covered by the tax levy, 5.1% is covered by payments from the enterprise funds for services

rendered, and 3.1% comes from other sources, primarily fees and the Cemetery Trust Fund. About 41% of the recommended budget is for compensation, i.e., salaries and wages, while the remaining 59% is for Expenses.

The net increase in compensation of \$182,799 (3.89%) from FY2022 is attributable to the cost of contractually obligated step increases and cost of living adjustments, as well as the inclusion of a program improvement to expand the hours of the DPW Management analyst.

The net increase in expenses is \$257,203, up 3.76% from FY2022.

Public Safety (4000)

Public Safety covers Law Enforcement (4100) and Fire and Rescue (4200). Of the total recommended appropriation of \$16,333,845, about 51% is for Law Enforcement and 49% for Fire and Rescue.

The recommended FY2023 appropriation for Law Enforcement is \$8,265,377 which is a 1.49% increase over the FY2022 budget. About 87% of the budget is for compensation and approximately 13% is for expenses. The net increase in compensation of \$50,309 (0.71%) reflects savings due to staff turnover offset by contractually obligated step increases, a program improvement to support enhanced police training under the new state certification requirements, a second program improvement which anticipates the need for staff to transport detainees to another location once the police move to their temporary location, and a third program improvement to fund a third crossing guard on Marrett Road for the Hastings Elementary School. The net increase in expenses is \$70,921 (6.92%) of which nearly \$30,000 is due to anticipated increases in the regional gasoline contract. The majority of the remaining increase is due to the purchase of two Hybrid vehicles, increased costs associated with supplies and ammunition, increased training and mileage costs, and an increase for the contract with the Town of Bedford to fund the Animal Control Officer.

The recommended FY2023 appropriation for Fire and Rescue is \$8,068,468, which is a 1.24% increase over the FY2022 budget. About 90% of the budget is for compensation while approximately 10% is for expenses. The net increase in compensation of \$22,464 (0.31%) is driven by contractual cost of living adjustments. The budget for expenses has increased by \$76,694 (10.62%) which includes anticipated increases in diesel fuel costs (\$12,400), increases in maintenance costs (\$10,000) for fire apparatus, ambulance and fleet vehicles; enhanced communications costs (\$2,400) to house the Emergency Command Center at fire headquarters, and a program improvement request (\$48,633) for a training mannequin to allow staff to practice their life support skills.

Culture and Recreation (5000)

Culture and Recreation covers Cary Memorial Library and Recreation and Community Programs. The FY2023 recommended appropriation of \$3,336,219 represents a 5.70% increase over the FY2022 budget. Note that the budget to be appropriated under this article is only for the Cary Memorial Library. The Recreation and Community Programs budget is funded under Article 5 by the Recreation Enterprise Fund and, to a lesser extent, by the tax levy. About 79% of the recommended budget is for compensation while the remaining 21% is for expenses.

The net increase in compensation of \$112,101 (4.44%) is driven by contractual cost of living adjustments. The net increase in expenses of \$67,770 (10.74%) is primarily driven by increases for supplies and materials and contractual services.

Human Services (6000)

The recommended appropriation for Human Services of \$1,527,421 represents a 19.57% increase from the FY2022 budget. About 47% of the recommended budget is for compensation while the remaining 53% is for Expenses.

The net increase in compensation of \$27,176 (3.94%) is driven by contractual cost of living adjustments. The net increase in expenses of \$222,780 (37.95%) reflects an increase for contractually obligated Lexpress costs, as well as \$200,000 to restore a one-time diversion of funds to a Lexpress operating grant in FY2022. For FY2023, funding for the William James Interface Mental Health Referral Service will be shared between the municipal and school budgets.

In addition to the General Fund appropriation requested here, Human Services will also be funded by \$320,509 from revolving funds (Article 9) and grants.

Land Use, Health, & Development (7000)

Land Use, Health, & Development covers six different budgeting units. The recommended appropriation of \$2,792,613 represents a 3.66% increase over the FY2022 budget. About 84% of the recommended budget is for compensation while the remaining 16% is for expenses.

The net increase in compensation of \$166,974 (7.69%) is driven by contractual cost of living adjustments as well as a program improvement to make the public health nurse a full-time position in Lexington along with a transfer of the Visitors Center manager from the Visitors Center Revolving Fund to the General Fund, partially offset by transferring the Battle Green Guides to the Visitors Center Revolving Fund, and more fully offset by a reduction in expenses to support the Visitors Center.

The net decrease in expenses of \$68,350 (-13.08%) reflects shifting \$74,000 in ongoing support for the Visitors Center to Compensation at Economic Development, offset by several small increases. Land Use, Health, & Development will also be funded by \$506,600 of revolving funds (Article 9).

General Government (8000)

General Government covers six different budgeting units. The recommended appropriation of \$8,844,311 represents a 8.51% increase from the FY2022 restated budget.

Program 8000 General Government	FY2022 Restated	FY2023 Budget	\$ Change	% Change
8100 Select Board	\$ 1,259,808	\$ 1,298,802	\$ 38,994	3.10%
8200 Town Manager	\$ 1,529,243	\$ 2,072,175	\$ 542,932	35.50%
8300 Town Committees	\$ 65,233	\$ 70,160	\$ 4,927	7.55%
8400 Finance	\$ 2,004,608	\$ 2,048,151	\$ 43,543	2.17%
8500 Town Clerk	\$ 502,431	\$ 627,297	\$ 124,866	24.85%
8600 Information Technology	\$ 2,789,292	\$ 2,727,727	\$ (61,565)	(2.21)%
TOTAL	\$ 8,150,615	\$ 8,844,311	\$ 693,696	8.51%

The primary driver of the total net increase of \$693,696 is the Salary Adjustment Account, which reflects anticipated FY2023 collective bargaining settlements, other wage increases, and compensated leave payments due certain employees at retirement. Nine contracts expire at the end of FY2022 or earlier, including those with the Lexington Police Supervisors and Patrol Officers, Dispatchers, Firefighters, Town Custodians, Crossing Guards, Municipal Managers and Municipal Clerks. A second driver for the net increase is for the Town Clerk to administer the state primary in September 2022 and the state general election in November 2022.

Article 5 Appropriate FY2023 Enterprise Funds Budgets		
Funds Requested	Funding Source	Committee Recommendation
\$12,264,627	Water EF	Dis/Approve (?-?)
\$11,490,000	Wastewater EF	
\$3,138,993	Recreation EF	

To see if the Town will vote to appropriate a sum of money to fund the operations of the DPW Water and Wastewater Divisions and the Department of Recreation and Community Programs; determine whether the money shall be provided by the estimated income to be derived in FY2023 from the operations of the related enterprise, by the tax levy, by transfer from available funds, including the retained earnings of the relevant enterprise fund, or by any combination of these methods; or act in any other manner in relation thereto.

Enterprise Fund	FY2021 Appropriated	FY2022 Appropriated	FY2023 Requested
a) Water Enterprise Fund			
Personal Services	\$ 834,114	\$ 865,454	\$ 875,670
Expenses	\$ 467,078	\$ 514,300	\$ 533,500
Debt Service	\$ 965,096	\$ 1,179,794	\$ 1,224,746
MWRA Assessment	\$ 8,006,399	\$ 8,743,912	\$ 9,618,303
Total Water Enterprise Fund	\$ 10,272,687	\$ 11,303,460	\$ 12,252,219
b) Wastewater Enterprise Fund			
Personal Services	\$ 315,205	\$ 389,779	\$ 399,848
Expenses	\$ 325,634	\$ 454,650	\$ 458,400
Debt Service	\$ 1,243,337	\$ 1,464,513	\$ 1,614,617
MWRA Assessment	\$ 7,922,359	\$ 8,177,213	\$ 8,994,934
Total Wastewater Enterprise Fund	\$ 9,806,535	\$ 10,486,155	\$ 11,467,799
c) Recreation and Community Programs			
Personal Services	\$ 896,659	\$ 1,342,201	\$ 1,567,753
Expenses	\$ 892,248	\$ 1,247,735	\$ 1,571,240
Total Recreation and Community Programs Enterprise Fund	\$ 1,788,907	\$ 2,589,936	\$ 3,138,993

[TEXT FROM LAST YEAR'S REPORT FOLLOWS]

This article addresses the appropriation of funds for the operation of the Town's three enterprise funds: the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation Enterprise Fund.¹ Enterprise funds allow a municipality to account separately for certain "business operations" in which a fee is charged in exchange for goods or services, and may or may not receive support from the tax levy. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please see Appendix B.

The operating and capital costs of the Water and Wastewater enterprises are funded exclusively by rates and fees charged to users, with no support from the tax levy or General Fund. The operating costs of the Recreation Fund enterprise are funded to the extent feasible by user fees, but also receive subsidies from the General Fund. Recreation capital projects are funded from the Community Preservation Fund whenever feasible, and in certain instances from retained earnings or the General Fund.

Water and Wastewater Enterprise Funds

A breakdown of the funding request for the Water and Wastewater Enterprise Funds, and changes from the prior fiscal year, are shown below. Further details may be found in the Brown Book, pp. V-27, 31. Although most of the costs in the water and wastewater operating budgets are appropriated under Article 5, certain others – including "indirect expenses" (for support services provided by other Town departments), cash to be raised in the rates in FY2022 for continuous system maintenance and investment, and contributions to the post-employment health benefits (OPEB) fund – are addressed in other articles as indicated.

¹ Capital appropriations for the enterprise funds are addressed in Articles 10 (CPA), 11 (Recreation Capital), 12 (Municipal Capital), 13 (Water System Improvements) and 14 (Wastewater System Improvements).

Water Enterprise Fund	FY2022 Appropriated	FY2023 Requested	\$ Change	% Change
Compensation	\$ 865,454	\$ 875,670	\$ 10,216	1.2 %
Expenses	\$ 514,300	\$ 533,500	\$ 19,200	3.7 %
Debt Service	\$ 1,179,794	\$ 1,224,746	\$ 44,952	3.8 %
MWRA Assessment	\$ 8,743,912	\$ 9,618,303	\$ 874,391	10.0 %
Total Requested in Article 5	\$ 11,303,460	\$ 12,252,219	\$ 948,759	18.7 %
Indirect Expenses (Article 4)			\$ —	#DIV/0!
Cash Capital (Article 13)			\$ —	#DIV/0!
OPEB Contribution (Article 17)			\$ —	#DIV/0!
Total Water Enterprise	\$ 11,303,460	\$ 12,252,219	\$ 948,759	#DIV/0!

Wastewater Enterprise Fund	FY2022 Appropriated	FY2023 Requested	\$ Change	% Change
Compensation	\$ 389,779	\$ 399,848	\$ 10,069	2.6 %
Expenses	\$ 454,650	\$ 458,400	\$ 3,750	0.8 %
Debt Service	\$ 1,464,513	\$ 1,614,617	\$ 150,104	10.2 %
MWRA Assessment	\$ 8,177,213	\$ 8,994,934	\$ 817,721	10.0 %
Total Requested in Article 5	\$ 10,486,155	\$ 11,467,799	\$ 981,644	23.7 %
Indirect Expenses (Article 4)			\$ —	#DIV/0!
Cash Capital (Article 14)			\$ —	#DIV/0!
OPEB Contribution (Article 17)			\$ —	#DIV/0!
Total Wastewater Enterprise	\$ 10,486,155	\$ 11,467,799	\$ 981,644	#DIV/0!

With a water fund increase of #DIV/0! and a wastewater fund increase of #DIV/0!, the percent increase in the budget for the water and wastewater funds over FY2022 on a combined basis is 6.61%. The main reasons for this significant increase are addressed briefly below.

MWRA Assessment. The largest component of both the water and wastewater budgets is the assessment charged by the Massachusetts Water Resources Authority (MWRA), which now represents approximately 70% of the total of each fund. The Town will be assessed a share of the MWRA's total FY2023 water budget based on its proportionate usage in the most recent full calendar year (CY2020) relative to other towns in the MWRA community. In CY2020, Lexington's water system share increased 5%, meaning that its water usage increased (most likely due to heavy irrigation usage during last year's dry summer) faster than other towns. Based on the MWRA's preliminary assessments, Lexington's water assessment for FY2021 will increase by 10.0% (compared with a system-wide increase of 3.6%) and its wastewater assessment by 3.91%, for a combined increase of 6.82%. This percentage increase, about the same as last year's, is the main driver of this year's significant water and wastewater fund budget increases.

Compensation Costs. Increases in compensation costs for both the water fund 1.2% and the wastewater fund 2.6% are unusually high this year. This increase results from a recent settlement of the DPW union contract which includes a "catch-up" for three prior open years. (Retroactive wage increases for the three open years before FY2022 will be addressed in the FY2021 budget.) Because the settlement covers three years going forward, growth in compensation costs should return to normal levels after this year.

Transition to Cash Capital. Last year, a plan was initiated to transition the funding of regularly recurring capital investments for the maintenance and upgrade of the Town's water and wastewater systems (targeted at \$2,200,000 annually for the water system and \$1,000,000 annually for the wastewater system) from borrowing to cash (referred to in the Brown Books as "cash capital"). Since the intent is ultimately to raise the same amount each year in the rates to continuously maintain the system, this amount has been included in the enterprise fund operating budgets even though applied to capital investment. See Brown Book, pp. V-27, 31. To minimize the impact of the changeover on rates, the transition is being phased in gradually: in the case of the water fund, by adding an

additional \$200,000 in cash capital each year for eleven years²; and in the case of the wastewater fund, \$100,000 per year for ten years. *See* the Brown Book, pp. V-26-27 and V-30-31. The transition currently adds about 1.5% to the increase in the water fund budget and about 1% to the increase in the wastewater rate budget. As the phase-in proceeds, the resulting reduction in debt service will increasingly offset the increase in cash capital costs.

Water and Wastewater Rate-Setting Issues

Because increases to the operating budgets of the water and wastewater enterprises approved at this annual town meeting will ultimately translate into increases to the FY2022 water and wastewater rates when set later in the year, a brief comment on the rate-setting process and the impact of this year's budget is in order.

Next fall, the Select Board will conduct rate hearings and set water and wastewater rates for FY2022. Two main components factor into the rates: (1) the approved budget for the fiscal year; and (2) estimates of the amount of water which will be consumed during the fiscal year by Lexington residents at each of the three graduated "tiers" of usage,³ as well as by certain other users for which Lexington serves as a conduit, primarily the Town of Bedford, the Bedford VA hospital, and Hanscom Air Force Base/Lincoln Labs.

The goal at rate-setting is to establish rates which will generate sufficient revenue, given the anticipated usage, to cover the budget established by Town Meeting for the fiscal year. If projected water usage is unchanged from the prior fiscal year, then the required rate increase for each enterprise should generally match the year-over-year increase in the budget approved by Town Meeting. If anticipated water usage increases from the prior year, the required rate increase may be lower than the increase in the budget; and if anticipated water usage decreases, the rate increase must be higher since most of the water and wastewater funds' costs are fixed, not variable.

By and large, water and wastewater rate increases have been relatively modest for more than a decade. From FY2007 through FY2021, combined rate increases fluctuated between -1.9% and 7.3% for an average annual rate increase of 2.8%. Last year (FY2021), the combined rate increase was approximately 4.0%. For FY2022, with a combined budget increase of 6.61%, a somewhat higher rate increase than last year can be expected if estimated water usage does not change.

For at least two reasons, however, that usage could decrease and the FY2022 rate increase could therefore be higher. First, there has been a recent trend of declining water usage for non-irrigation purposes as plumbing fixtures are modernized to waste less water and residents pay more attention to water conservation. If this trend continues, a higher rate increase will be required in FY2022.⁴ Second, last summer's unusually hot, dry weather led to unusually large irrigation water usage which helped reduce the FY2021 rates. If those drought conditions do not recur this summer, a reduction in estimated irrigation water usage can be anticipated for FY2022 which will result in additional pressure on the water rates.

To minimize the risk of an operating loss, anticipated water usage is estimated conservatively. This means that the water and wastewater funds typically generate revenue in excess of the amount assumed for the budget. The disposition of that surplus revenue, or "retained earnings," is discussed below.

Water and Wastewater Retained Earnings

Accumulated surpluses resulting from the operations of an enterprise fund, referred to as "retained earnings", remain with the fund as a reserve, and may be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. *See* Appendix B. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates. The Town's policy is to maintain a balance of approximately \$1 million of retained earnings in each fund as a buffer against revenue shortfalls resulting from unexpected reductions in usage or unanticipated extraordinary expenditures. The table below shows how the balance of retained earnings has been deployed over the past several years and their proposed appropriation at this ATM for FY2022.

² This year, and potentially in future years as well, the annual expenditure for water system improvements was cut back from \$2,200,000 to \$1,110,000. *See* discussion of Article 13 below. If the lower annual amount prevails going forward, the transition from borrowing to cash capital will be completed in less than 11 years.

³ For the vast majority of Lexington residents who have sewer connections, wastewater charges are billed based on the amount of water consumed by the household, not including irrigation water metered separately. Water used for irrigation is billed at the highest of the three tiered water rates.

⁴ Note that the higher rates should not result in higher bills for those who reduce their water usage consistent with the townwide decrease.

Retained Earnings: Appropriations and Year-End Balances

Fiscal Year	FY2019	FY2020 ⁽⁵⁾	FY2021	FY2022
Water				
Starting Balance ⁽¹⁾	\$ 531,683	\$ 1,612,998	\$ 1,346,448	\$ 1,737,914
Appropriation for Rate Relief ⁽²⁾	\$—	\$—	\$—	\$—
Appropriation for Capital ⁽³⁾	\$ 105,000	\$ 775,000	\$ 130,000	\$ 520,000
Projected End Balance ⁽⁴⁾	\$ 426,683	\$ 837,998	\$ 1,216,448	\$ 1,217,914
Wastewater				
Starting Balance ⁽¹⁾	\$ 576,523	\$ 1,521,373	\$ 998,736	\$ 1,297,665
Appropriation for Rate Relief ⁽²⁾	\$—	\$—	\$—	\$—
Appropriation for Capital ⁽³⁾	\$—	\$ 700,000	\$—	\$ 110,000
Projected End Balance ⁽⁴⁾	\$ 576,523	\$ 821,373	\$ 998,736	\$ 1,187,665

(1) Certified retained earnings as of the end of the prior fiscal year (6/30/2020 for FY2021) and available for appropriation at this annual town meeting

(2) The Town's former practice of appropriating from retained earnings to subsidize the next fiscal year's operating budget has been discontinued since FY2015 as it merely pushes necessary rate increases to the following year.

(3) Proposed appropriations for capital projects for the next fiscal year (FY2022 at this ATM). Note that such appropriations must be deducted as a liability from the projected retained earnings to be certified as of the end of the current fiscal year even though the funds appropriated will not be spent until the following year.

(4) The projection of the retained earnings balance available at the end of the fiscal year assumes break-even operational results, i.e., no surplus or deficit. A higher (lower) starting balance available for appropriation the following year indicates that the current year's operating results were higher (lower) than were projected at rate-setting, resulting in an operating surplus (deficit).

(5) The State Department of Revenue (DoR) under-certified water and wastewater retained earnings at the end of FY2018, and then corrected for this in its certification at the end of FY2019. This created the appearance of a combined surplus of over \$2.1 million for FY2019 due to the difference between the FY2020 Starting Balance and the FY2019 Projected End Balance for each fund. The actual FY2019 combined surplus was roughly half of that amount.

As can be seen from the table, the primary use of retained earnings in excess of the amounts held in reserve is for capital projects. From roughly 2009 to 2014, excess retained earnings were appropriated on a regular basis to mitigate water and sewer rate increases in the next fiscal year. That practice was discontinued, however, as it provided only temporary rate relief and enhanced the rate increase required the following year if the retained earnings subsidy was not repeated. Since that time, as shown in the table above and consistent with recommendations made by this Committee, excess retained earnings, the availability of which cannot be guaranteed, have been used primarily for non-recurring capital investments of the enterprises, thereby lowering debt service costs and required future rate increases over a more extended period of time, as well as saving interest cost.

Consistent with this practice, excess water and wastewater retained earnings available this year are proposed for appropriation under other articles to fund, or help fund, the following FY2022 capital projects: under Article 12 (Municipal Capital), \$145,000 from the water fund and \$110,000 from the wastewater fund for maintenance equipment, and \$75,000 from the water fund for the hydrant replacement program; and under Article 13 (Water System Improvements), \$300,000 from the water fund for design work for the future replacement of the Town's two water tanks. See Brown Book, pp. XI-16, XI-18. As can be seen from the table above, the drawdown of retained earnings for these purposes will still leave the water and wastewater funds with healthy reserve balances of about \$1.2 million each.

Recreation Enterprise Fund

The Recreation Enterprise Fund, or Recreation Fund for short, has for many years been the principal source of funding for the Town-sponsored recreational programs for residents, most of which are fee-generating. Prior to 2015, recreation activities were managed by the Recreation Department and both the Department and the activities were financed through the enterprise fund. In 2015, following the inauguration of the Lexington Community Center (LCC), the Recreation Department was reorganized to include responsibility for the community center and renamed the Department of Recreation and Community Programs (the Department). The Department now comprises four divisions: Recreation, Pine Meadows Golf Club, Community Center, and the Administrative Division. The enlarged department and its full scope of activities are still funded through the enterprise fund, which receives tax-levy contributions to support non-fee programs as well as the income from a wide range of fee-supported programs.

Historically, the Recreation Fund's operating budget was supported solely by program and facility fees. With the opening of the LCC, however, which added the cost of several full-time employees to provide programming available to all residents that is not generally supported through fees, a decision was made to appropriate from the tax levy the additional amount necessary to cover those costs. The original appropriation from the tax levy for this purpose in FY2016 was \$217,000, and similar amounts have been appropriated from the tax levy each year since.

The advent of the pandemic midway through FY2021 had a significant impact on recreation operations, activities, and fee income. With the suspension of many recreational and Community Center activities and the consequent decimation of program and facility fees, it became necessary to shore up the Recreation Fund with additional funds from the tax levy. At the fall 2020 Special Town Meeting, an additional \$400,000 was appropriated from the tax levy for this purpose. Combined with the prior appropriation at the annual town meeting for LCC staffing of \$218,916, the total tax levy subsidy in FY2021 was \$618,916.

The FY2022 budget, as approved at the 2021 Annual Town Meeting, includes a direct transfer from the tax levy of \$509,215, inclusive of the usual transfer for LCC staffing. This amount anticipates that the effects of the pandemic will continue through at least part of the fiscal year, and aims to offset revenue losses, maintain core DRCP functions, and enable the Department to resume full operations if and when the pandemic subsides. The FY2022 budget also suspends the Recreation Fund's annual payment of indirect expenses to the General Fund, which was \$277,771 in FY2021, for a total effective FY2022 tax levy subsidy of approximately \$800,000.

The proposed appropriations for FY2023, and changes from the prior fiscal year, are shown in the table below. The total FY2023 budget is about \$835,000, or 32%, more than the appropriated FY2022 budget. The increases are largely due to recovery from the effects of the pandemic in the prior two fiscal years, and these include the costs of the program improvement requests for a part-time recreation coordinator and printing and mailing of a program brochure. The amount of \$47,000 for replacement of a vehicle is also included via a program improvement request.

Recreation Enterprise Fund	FY2021 Actual	FY2022 Revised	FY2023 Requested	Dollar Increase	% Change
Compensation	\$896,659	\$1,342,201	\$1,567,753	\$225,552	16.8%
Expenses	\$892,248	\$1,247,735	\$1,571,240	\$323,505	25.9%
Debt Service	—	—	—	—	—
Total Requested in Article 5	—	\$2,589,936	\$3,138,993	\$549,057	21.2%
Indirect Expenses (Article 4)	\$277,771	—	\$286,104	\$286,104	100.00%
Total	\$2,066,678	\$2,589,936	\$3,425,097	\$835,161	32.2%

The sources of funds to support the FY2023 budget, including the tax levy transfer, are as follows:

- Enterprise Fund retained earnings \$375,000
- Projected recreation user charges, \$1,461,752
- Projected Community Center user charges, \$445,555
- Projected Pine Meadows Golf Club user charges, \$900,000
- Tax levy, \$242,790.

The projected distribution of funding in FY2023 among the four divisions of the Department is as follows:

- Recreation, \$1,426,153
- Pine Meadows Golf Club, \$550,800
- Community Center, \$629,962
- Administration, \$532,078.

Fee-Setting. The Director of Recreation and Community Programs and the Recreation Committee set fees from time to time for use of the Town's playing fields, gyms, other recreational facilities, and for certain recreational programs with the goal of covering all operating costs of those fee-generating activities. The proposed fees are subject to the approval of the Select Board. If actual revenues come in higher than projections, the resulting surplus becomes part of the Recreation Enterprise Fund's retained earnings and can be used for future operating expenses, capital costs of the enterprise, to lower fees, or to absorb future losses.

Capital Costs. The capital costs of the Recreation Fund are covered, to the extent projects are eligible under the Community Preservation Act (CPA), by the Community Preservation Fund. This year's CPA-funded projects, for which appropriations totaling \$4,509,591 are sought under Article 10, consist of playground pour-in-place surfaces and other improvements, the renovation of the Fiske School field, renovation of the basketball court and tennis

courts off of Worthen Rd., and the formulation of a master plan for Lincoln Park. CPA funds (\$915,000) are also sought to renovate the building housing the Center recreation complex bathrooms, but that project would be managed by the Department of Public Facilities. For more detail on these projects, see the discussion of Article 10 (CPA) below.

Capital projects not eligible for CPA funding may receive support from the General Fund through the appropriation of free cash, within-levy debt or excluded debt, and may also be supported by the Recreation Fund's retained earnings to the extent feasible. Capital costs of the Pine Meadows Golf Club are typically funded from retained earnings attributable to golf user fees, as is the case this year with the proposed appropriation under Article 11 (Recreation Capital) of \$95,000 for course improvements.

Looking Forward. As noted above, the operations of the Community Center for which fees are not charged are supported by the tax levy, and additional support from the tax levy has recently been required due to the stress placed on the Recreation Fund by the pandemic. Looking ahead, the Town Manager has convened a Financial Policy Working Group which will examine, among other things, the funding of the Town's recreational programs and services, and whether the use of an enterprise fund for this purpose continues to make sense.

Article 6 Appropriate for Senior Services Program		
Funds Requested	Funding Source	Committee Recommendation
\$15,000	GF	Approve (8-0)

This article seeks an appropriation for the Town's Senior Service Program of \$15,000. Added to an existing balance of approximately \$XXXXX carried over from prior years, the appropriation would bring the total in this continuing balance account to about \$XXXXX. That amount should be adequate to fund the program in FY2023 and provide flexibility for potential enhancements.

The Senior Service Program

The Senior Service Program allows a limited number of low to moderate income seniors (age 60 and over) to perform volunteer work for the Town in exchange for a reduction in their property tax. The reduction which may be earned under this program supplements any other statutory exemption for which the participant qualifies. For more information on the Senior Service Program and other property tax relief options available to seniors, including exemptions and deferrals, please refer to Appendix D or the Town website at the following link:

<https://www.lexingtonma.gov/assessor/pages/4-elderly-other-tax-relief>

Benefits and Criteria for Participation

The Select Board is responsible for setting the age and income criteria for participation, the wage rate, and the maximum credit allowed. Under current guidelines, the program is available for persons age 60 years and older with household income up to \$90,000. The maximum tax reduction which may currently be earned, \$1,755 per household per year.

Funding Requirements and Requested Appropriation

The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first adopted, appropriations were made annually to fund the program. More recently, with declining participation (and a suspension of the program for most of calendar year 2020 due to the pandemic), carryover account balances have been sufficient to fund the program for multiple years. The last appropriation made was \$15,000 in FY2022.

Although the Senior Service Program has been less popular in recent years than in the past, it is nevertheless an important and useful program as it provides an opportunity for socialization and meaningful property tax relief for participants in the context of a productive contribution to the Town.

Article 7 Climate Action Plan

Funds Requested	Funding Source	Committee Recommendation
\$55,000	Unknown	Approve (8-0)

To see if the Town will vote to raise and appropriate a sum of money to plan and conduct outreach to update the Sustainable Action Plan with the Climate Action plan; to determine whether the money shall be provided by the tax levy, by transfer from available funds, or by any combination of these methods; or act in any other manner in relation thereto.

DESCRIPTION: In 2018 the Town published a Getting to Net Zero plan, an important step in the right direction to update and implement our community's goals for reaching sustainable objectives including reduction of emissions laid out in the Sustainable Action Plan. Town Meeting appropriated \$40,000 for that project for FY2018. The budget from that project has a remaining balance which will be re-appropriated. The Climate Action Planning is the next step in putting together the Climate Action plan and will use extensive, inclusive, and creative outreach.

Article 8 Appropriate for Comprehensive Plan Implementation

Funds Requested	Funding Source	Committee Recommendation
\$75,000	Unknown	Dis/Approve (?-?)

To see if the Town will vote to appropriate a sum of money for the purpose of implementing the recommendations of the comprehensive plan and determine whether the money shall be provided by the tax levy, by transfer from available funds, or by any combination of these methods; or act in any other manner in relation thereto.

DESCRIPTION: This article will support the public process required to advance the comprehensive plan into implementation phase.

Article 9 Establish and Continue Departmental Revolving Funds

Funds Requested	Funding Source	Committee Recommendation
<i>See below</i>	RF	Approve (8-0)

This article seeks to establish FY2023 spending limits for all existing revolving funds, as shown in the table below. Generally speaking, a revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges to pay expenses for services associated with those fees and charges without the need for further appropriation. More detailed information regarding the nature and purpose of revolving funds can be found in Appendix C of this report.

The spending limit proposed for each of the Town's existing funds, as set forth in the table below, is based on a reasonable estimate of the fees and charges likely to be received, as well as of the expenditures likely to be required. A summary of the historical receipts, expenditures, and balances for each fund during FY2021 and the first half of FY2022 can be found in Appendix C of the Brown Book. No new revolving funds are proposed to be established this year.

Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2022 Request	FY2023 Request
School Bus Transportation	School Committee	School Bus Fees	\$ 1,150,000	\$ 1,150,000
Building Rental Revolving Fund	Public Facilities Dir.	Building Rental Fees	\$ 570,000	\$ 586,000
Regional Cache—Hartwell Avenue	Public Works Dir.	Participating Municipality Fees	\$ 50,000	\$ 50,000
Lexington Tree Fund		Gifts and Fees	\$ 70,000	\$ 75,000
DPW Burial Containers		Sales	\$ 50,000	\$ 60,000
DPW Compost Operations		Sales and Permits	\$ 790,000	\$ 855,000
Minuteman Household Hazardous Waste Program		Fees from Consortium Towns	\$ 260,000	\$ 260,000
Senior Services Programs	Human Services Dir.	Program Fees and Gifts	\$ 75,000	\$ 75,000
Residential Engineering Review	Engineering Dir.	Fees Paid by Developers	\$ 57,600	\$ 57,600
Health Programs	Health Director	Medicare Reimbursements	\$ 45,000	\$ 45,000
Lab Animal Permits	Public Health Dir.	Lab Animal Permit Fees	\$ 40,000	\$ 40,000
Tourism/Liberty Ride	Economic Development Dir.	Liberty Ride Receipts	\$ 194,000	\$ 104,000
Visitors Center		Sales, Program Fees and Donations	\$ 247,000	\$ 260,000

With the exception of the Liberty Ride (tourism was significantly affected by the pandemic), the proposed spending limits have not changed substantially from those approved last year.

Article 10 Appropriate the FY2023 Community Preservation Committee Operating Budget and CPA Projects

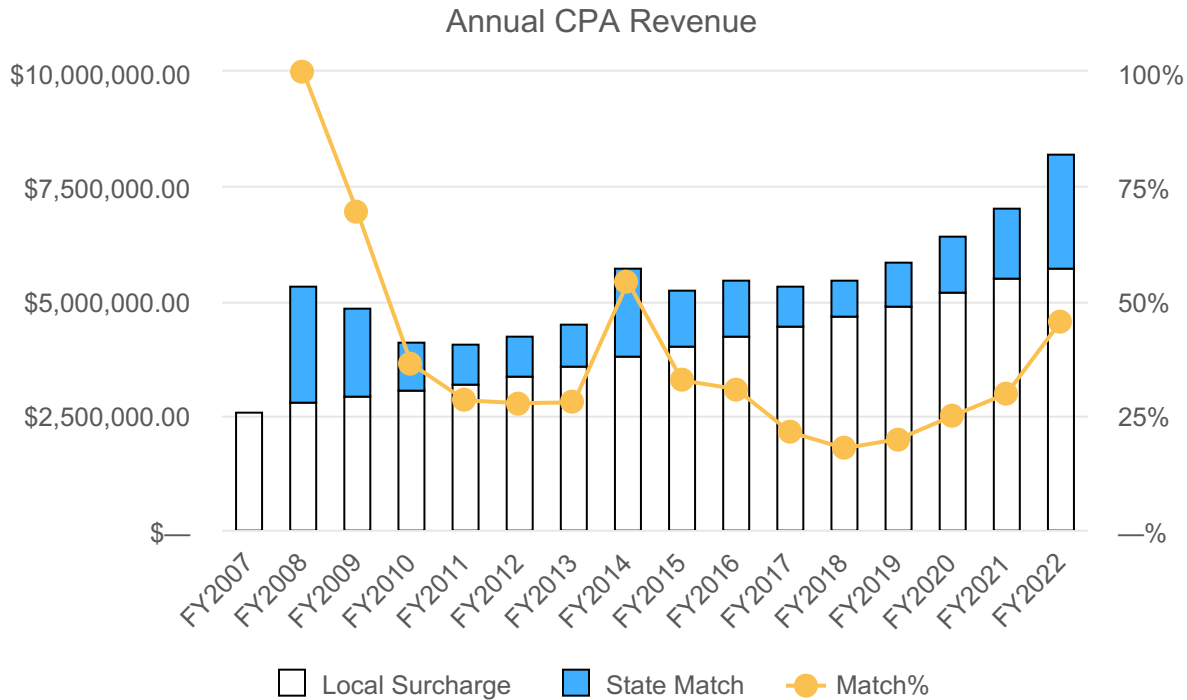
Funds Requested	Funding Source	Committee Recommendation
<i>See below</i>	CPA	[a-d,f-j,l-n] Approve (8-0) [e,k] Dis/Approve (?-?)

Community Preservation Act (CPA) projects are funded using the Community Preservation Fund (CPF), which is managed as four separate sub-funds: Affordable Housing, Open Space & Recreation, Historic Resources, and Unbudgeted Reserves. The appropriation details for each project are shown below.

The Committee notes that while this year's total requested appropriation in the largest ever requested, it follows a large reduction in CPA requests in FY2022 due to pandemic-related limitations. For reference, appropriations under the CPA for FY2021 totaled \$8,960,225 while appropriations for FY2022 were just \$2,684,550.

The funds available for appropriation are \$16,523,252. The reduced spending in FY2022 resulted in a carry-forward balance of \$8,387,252. The local surcharge revenue and an estimated FY2023 state match of 38% results in budgeted revenue of \$8,136,000. If all projects are approved by Town Meeting, the remaining CPA fund balances will stay over the agreed upon minimal \$3 million level to keep funds in reserve for unanticipated time-sensitive mid-year uses such as purchasing a parcel of land for conservation.

As stipulated by the Community Preservation Act, the CPF has two sources of revenue; a 3% surcharge applied to property tax bills, and a variable annual state match of surcharge revenues collected by the Town. In the 15 years since the Town enacted the CPA, the state match has averaged out to roughly 38%, and only once met the full 100% allowed by the Community Preservation Act. Increases in the fees charged on all real estate transactions, as well as a FY2021 state budget surplus, have boosted the total match of FY2021 surcharges.



Lexington has received \$2,500,261 in matching funds for FY2022, a 45.5% match from the state. This exceeded the 30% rate projected in the FY2022 budget, and it is the highest percentage match since FY2014. Revenues in excess of the budget projections will be appropriated as an adjustment to the FY2022 budget under Article 21.

Funding requests for the FY2023 CPA projects are detailed below. It is noteworthy that none of these requests will rely on debt-financing. CPA expenditures from the prior year were well below normal, resulting in large cash balances in each of the four CPA accounts.

Art- icle	Item	Funding Request	CPF Funding Account
10(a)	Archives and Records Management	\$ 20,000	Historic Resources
10(b)	Wright Farm Barn Stabilization	\$ 155,000	Historic Resources
10(c)	West Farm Meadow Preservation	\$ 28,175	Open Space
10(d)	Playground Improvements – Pour-in-Place Surfaces	\$ 1,459,591	Unbudgeted Reserves
10(e)	Center Playground Bathrooms and Maintenance Building Renovations	\$ 915,000	Undesignated Fund
10(f)	Playground Improvements – Hard Courts Surfaces	\$ 2,500,000	Unbudgeted Reserves
10(g)	Park and Playground Improvements – Kinneens Park	\$ 200,000	Unbudgeted Reserves
10(h)	Park Improvements – Athletic Fields – Fiske Field	\$ 250,000	Unbudgeted Reserves
10(i)	Lincoln Park Master Plan	\$ 100,000	Unbudgeted Reserves
10(j)	LexHAB – Preservation and Rehabilitation	\$ 234,000	Community Housing
10(k)	LexHAB – 116 Vine Street Construction Funds	\$ 2,000,000	Community Housing
		\$ 3,300,000	Unbudgeted Reserves
		\$ 5,300,000	
10(l)	Lexington Housing Authority – Vynebrooke Village – Preservation	\$ 160,790	Community Housing
10(m)	CPA Debt Service	\$ 324,500	Open Space
		\$ 773,000	Historic Resources
		\$ 838,135	Unbudgeted Reserves
		\$ 1,935,635	
10(n)	Administrative Budget	\$ 150,000	Unbudgeted Reserves
TOTAL		\$ 13,408,191	

10(a) Archives and Records Management

This \$20,000 request is for the conservation and preservation of historic municipal documents and records. The ongoing project will fund the conservation and preservation of older documents and make them available in the Town's digital archives. Documents to be conserved under this funding request include the 1927 blueprints for the Cary Memorial Building; Tax Warrants and Acts of Massachusetts, 1778-1823; and a police department journal for, 1874-1909. This request is made by the Town Clerk's office and would be funded from the Historic Resources Reserves.

10(b) Wright Farm Barn Stabilization

This \$155,000 request would fund repairs need to stabilize the barn located on the Wright Farm property. The Wright Farm was purchased in 2016 using CPA money for both conservation and affordable housing use. While the farm house has been renovated by LexHAB, the barn has remained in its original dilapidated condition. The proposed repairs would stabilize the building against the weather and prevent further decay. Long-term plans would renovate this structure for use by the community. This request is being made by the Land Use, Health & Development Department and would be funded from the Historic Resources Reserves.

10(c) West Farm Meadow Preservation

This \$28,175 request would extend the conservation meadow preservation program to approximately 10 acres of the West Farm Meadow conservation land. Work done will improve the land for passive recreation, wildlife management, scenic enjoyment, and preservation of Lexington's agricultural history. Started in FY2015, this CPA funded program has restored meadow lands at Hennessey Field, Joyce Miller's Meadow, and Wright Farm, and will soon do so at Willard's Woods and Daisy Wilson Meadow. This request is being made by the Land Use, Health & Development Department and would be funded from the Open Space Reserves.

10(d) Playground Improvements - Poured-in-Place Surfaces

This \$1,459,591 request would improve the playgrounds at the Bowman, Bridge, and Estabrooke schools by removing the current bark mulch safety surfacing around the play equipment and installing Pour-In-Place safety surfacing, and installing a completely new playground at Fiske School. Pour-In-Place is a impact-absorbing rubber/urethane surface that is easy to maintain, has a 15-year life, and creates accessible access to the play area. For these reasons Lexington is installing it in all new playgrounds. This project would complete the last of the school playgrounds with the next anticipated replacements being in 2033. This project is requested by the Department of Public Facilities and would be funded from the Unbudgeted Reserves.

10(e) Center Playground Bathrooms and Maintenance Building Renovation

This \$915,000 request is for construction funds to renovate the bathrooms and DPW maintenance building at the Center Playground. Funds to design and engineer this project were appropriated in FY2021, although questions raised at Town Meeting about the proposed design prevented construction money from being approved. Now that community and stakeholder input has been gathered this design is moving forward. This building supports the users of the Center Playground facility. Many users pay permit fees for access to the field, tennis courts, and track complex. Delaying necessary renovations could lead to reduction in permit revenue. This project is requested by the Department of Public Facilities and would be funded from the Undesignated Fund Balance.

10(f) Playground Improvements - Hard Court Surfaces

This \$2,500,000 request is for renovation of the Farias Basketball Courts and the Gallagher Tennis Courts. This is a large project which involves resurfacing hard basketball, tennis and pickleball surfaces and equipment, new fencing, tennis backboards and site amenities. This would complete, at least until 2028, the Hard Court surfaces program which began in FY2016. This project is requested by the Recreation and Communities Programs Department and would be funded from the Unbudgeted Reserves.

10(g) Park and Playground Improvements - Kinneens Park

This \$200,000 request would improve the Kinneens Park neighborhood park on Burlington St.. Work includes updating and replacing playground equipment and safety surfacing and installing fencing, signage, park benches, and a bike rack. This project is requested by the Recreation Committee and follows on similar CPA-funded playground improvements projects from FY2016, 2017, 2018, 2021, and 2022. This project would be funded from the Unbudgeted Reserves.

10(h) Park Improvements - Athletic Fields - Fiske Field

This \$250,000 request would renovate the Fiske School Fields with irrigation upgrades, laser grading and the installation of new natural grass, and installation of backstops, fencing, and signage. This project is requested by the Recreation Committee and follows on similar CPA funded field improvements projects from FY2016, 2017, 2018, 2020, 2021 and 2022. This project would be funded from the Unbudgeted Reserves.

10(i) Lincoln Park Master Plan

This \$100,000 request would create a master plan for future improvements at Lincoln Park, a recreation area with both active and passive recreation uses. Our five-year capital plan currently has six possible projects bookmarked for this facility, and the proposed master plan should create a coordinated, holistic approach to implementing the enhancements and upgrades that stakeholders envision. This project is requested by the Recreation and Communities Programs Department and would be funded from the Unbudgeted Reserves.

10(j) LexHAB - Preservation and Rehabilitation

This \$234,000 request is for preservation and rehabilitation/restoration projects in Lexington Housing Assistance Board (LexHAB) managed affordable housing units. Nine of these units were acquired with CPA funding, and three unit were acquired solely with LexHAB funds. This funding enables LexHAB to keep its entire stock of 78 units of affordable housing available to serve the needs of the community. This project is requested by LexHAB and would be funded from the Community Housing Reserves.

10(k) LexHAB - 116 Vine Street Construction Funds

This \$5,300,000 request is for construction funds for six units of affordable housing at the Leary Farm, 116 Vine St. This 14.2 acre parcel was acquired in 2009 using CPA funds. At the time, 2/3 acres located on Vine St was set aside for affordable housing, and the balance of the property was preserved as conservation land. LexHAB was charged with developing affordable housing and the plans are now prepared to proceed. This project is requested by LexHAB and would be funded from the Community Housing Reserves and Undesignated Fund Balance.

10(l) Lexington Housing Authority - Vynebrooke Village - Preservation

This \$160,790 request is for a preservation project at the Lexington Housing Authority's Vynebrooke Village. These funds would supplement a \$3.8 million grant the Authority received from the Massachusetts Department of Housing and Community Development. This project would modernize the kitchens and bathrooms of the 48 units at the Village as well as convert three units to fully accessible housing, and this CPA appropriation would specifically finance fire and safety systems upgrades. This project is requested by LexHAB and would be funded from the Community Housing Reserves.

10(m) CPA Debt Service - \$1,935,635

Projected debt service on CPA projects is outlined in the following table. Two different types of debt instruments are used: bond anticipation notes (BANs), and multi-year municipal bonds. BANs provide interest-only borrowing for a term of up to one year. They are issued for individual projects prior to bundling the debt from several projects to create a single multi-year bond.

Project	Final Payment	Total	Total	FY2023
TM Approval		Appropriation	Debt Financing	Debt Service
Wright Farm Purchase		\$ 3,072,000	\$ 2,950,000	\$ 324,500
ATM 2012	FY2024			
Community Center Acquisition		\$ 10,950,000	\$ 7,390,000	\$ 808,500
STM 3/2013	FY2024			
Cary Memorial Building Upgrades		\$ 8,677,400	\$ 8,241,350	\$ 733,600
STM 3/2014	FY2025			
Community Center Renovation		\$ 6,297,184	\$ 30,225	\$ 30,427
STM 6/2014	FY2023 (BAN)			
Cary Memorial Building Construction		\$ 8,677,400	\$ 38,350	\$ 38,608
STM 3/2014	FY2023 (BAN)			
TOTAL		\$ 37,673,984	\$ 18,649,925	\$ 1,935,635

The debt service for the Wright Farm purchase will be paid from the Open Space Reserve; the Community Center Acquisition debt service, the Cary Memorial Building Upgrades, and \$792 of the Community Center Renovations BAN will be paid from the Historic Resource Reserve; and the remaining debt service payments will be paid from the Unbudgeted Reserves.

While the CPA statutes limits a community's CPA debt to a level that can be serviced by annual revenue, the practice of the Town, based on recommendations from the Appropriation Committee and Capital Expenditures Committee, is to limit the size and duration of debt funded by the CPA to the practical minimum. This practice reduces the potential for long-term financial commitments that would linger should the residents vote to rescind the CPA surcharge in the future. Additionally, if too much of the CPA annual revenue were consigned for debt service, the ability of the CPC to fund new projects directly with cash would be stifled.

10(n) Administrative Budget

The Community Preservation Act permits up to 5% of annual CPA funds to be spent on the operating and administrative costs of the CPC. The CPC may pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. As in past years, the CPC is requesting an appropriation of \$150,000, which is well below the 5% cap of \$400,000. This money will be used to fund the Committee's part-time administrative assistant, membership dues to the nonprofit Community

Preservation Coalition, administrative expenses, legal and miscellaneous expenses, land planning, appraisals, and legal fees for open space proposed to be acquired using CPA funds. Funds appropriated for administrative expenses are from the Unbudgeted Reserves and money not spent in a given fiscal year reverts to the CPA Undesignated Fund Balance at year's end.

Article 11 Appropriate for Recreation Capital Projects

Funds Requested	Funding Source	Committee Recommendation
\$95,000	Recreation EF Retained Earnings	Approve (8-0)

Item	Amount	Funding Source	Brown Book p.
Pine Meadows Improvements	\$ 95,000	Recreation RE	XI-15

This request will fund installation of new fairway bunkers on the 2nd and 7th holes, as well as a greenside bunker at the 8th hole, reconstruction of the bunker on the 9th green, expansion of the tee at the 9th hole, reconstruction of the middle tee on the 8th hole, and completion of the design and engineering work associated with the cart path restoration and renovation on the 5th hole.

The Recreation Enterprise Fund is funded by user fees. Information on the available balance for this and other enterprise funds may be found in the discussion of Article 5.

Article 12 Appropriate for Municipal Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
\$14,016,091	<i>See below</i>	Approve (8-0)

In the first table below, the requested appropriations are categorized by funding source. The Committee was unanimous in its recommendation for all items. For a discussion of the items in this request, please see the referenced pages in the Brown Book. The Capital Expenditures Committee Report to the 2022 Annual Town Meeting contains further discussion of these capital requests.

Item #	Request	Funding Source
g, n	\$ 3,615,000	GF Debt
e, f, g, h, i, j, k, m, o, p, q, r, s, t	\$ 6,817,577	Free Cash
l	\$ 2,669,767	Tax Levy
b, c	\$ 240,000	Traffic Stabilization Fund
h	\$ 236,923	Prior Year Debt
g, m	\$ 220,000	Water RE
g	\$ 145,000	Sewer RE
a	\$ 65,000	TMOD Stabilization Fund
d	\$ 6,824	TNC Spec. Revenue Fund
	\$ 14,016,091	TOTAL

#	Item	Amount	Funding Source	Brown Book
a	Hartwell District Signage	\$ 65,000	TMOD Stabilization Fund	XI-14
b	Townwide Pedestrian & Bicycle Plan	\$ 65,000	Traffic Stabilization Fund	XI-15

#	Item	Amount	Funding Source	Brown Book
c	South Lexington and Forbes-Marrett Traffic Mitigation Plans	\$ 175,000	Traffic Stabilization Fund	XI-15
d	Transportation Mitigation	\$ 6,824	TNC Spec. Revenue Fund	XI-15
e	Replace Pumper Truck	\$ 650,000	Free Cash	XI-15
f	Townwide Culvert Replacement	\$ 390,000	Free Cash	XI-16
g	Equipment Replacement	\$ 1,536,000	Water-Sewer RE/Free Cash	XI-16
h	Sidewalk Improvements	\$ 800,000	Free Cash/Prior Bond Auth.	XI-17
i	Townwide Signalization Improvements	\$ 125,000	Free Cash	XI-18
j	Storm Drainage Improvements and NPDES Compliance	\$ 570,000	Free Cash	XI-18
k	Comprehensive Watershed Stormwater Management	\$ 390,000	Free Cash	XI-18
l	Street Improvements	\$ 2,669,767	Tax Levy	XI-18
m	Hydrant Replacement Program	\$ 150,000	Water RE/Free Cash	XI-20
n	Battle Green Streetscape Improvements	\$ 4,975,000	Free Cash/GF Debt	XI-20
o	Municipal Parking Lot Improvements	\$ 60,000	Free Cash	XI-20
p	Public Parking Lot Improvement Program	\$ 100,000	Free Cash	XI-20
q	New Sidewalk Installations	\$ 75,000	Free Cash	XI-20
r	Application Implementation	\$ 158,500	Free Cash	XI-20
s	Network Redundancy & Improvement Plan	\$ 945,000	Free Cash	XI-20
t	Scanning - Electronic Document Management	\$ 110,000	Free Cash	XI-21

Article 13 Appropriate for Water System Improvements

Funds Requested	Funding Source	Committee Recommendation
\$2,200,000	Water EF Debt Water EF Rates Water EF Retained Earnings	Approve (8-0)

To see if the Town will vote to make water distribution system improvements, including the installation of new water mains and replacement or cleaning and lining of existing water mains and standpipes, the replacement or rehabilitation of water towers, engineering studies and the purchase and installation of equipment in connection therewith, in such accepted or unaccepted streets or other land as the Select Board may determine, subject to the assessment of betterments or otherwise; and to take by eminent domain, purchase or otherwise acquire any fee, easement or other interest in land necessary therefor; appropriate money for such improvements and land acquisition and determine whether the money shall be provided by the tax levy, water enterprise fund, by transfer from available funds, including any special water funds, or by borrowing, or by any combination of these methods; to determine whether the Town will authorize the Select Board to apply for, accept, expend and borrow in anticipation of federal and state aid for such projects; or act in any other manner in relation thereto.

DESCRIPTION: For a description of the proposed projects, see Section XI: Capital Investment section of the FY2023 budget. The most recent version of the capital section can be found at <http://www.lexingtonma.gov/fy23capital>.

Article 14 Appropriate for Wastewater System Improvements

Funds Requested	Funding Source	Committee Recommendation
\$3,020,000	Wastewater EF Debt Wastewater EF Rates	Approve (8-0)

To see if the Town will vote to install and line sanitary sewer mains and sewerage systems and replacements and upgrades to pump stations thereof, including engineering studies and the purchase of equipment in connection therewith; in such accepted or unaccepted streets or other land as the Select Board may determine, subject to the assessment of betterments or otherwise, in accordance with Chapter 504 of the Acts of 1897, and acts in addition thereto and in amendment thereof, or otherwise; and to take by eminent domain, purchase or otherwise acquire any fee, easement or other interest in land necessary therefor; appropriate money for such installation and land acquisition and determine whether the money shall be provided by the tax levy, the wastewater enterprise fund, by transfer from available funds, including any special wastewater funds, by borrowing, or by any combination of these methods; to determine whether the Town will authorize the Select Board to apply for, accept, expend and borrow in anticipation of federal and state aid for such wastewater projects; or act in any other manner in relation thereto.

Article 15 Appropriate for School Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
\$1,343,006	Unknown	Approve (8-0)

The requested funds will be used to purchase equipment to aid the Lexington Public Schools' (LPS) staff in teaching and administration, to provide devices to be assigned to students to allow for innovative learning methods that integrate supportive technologies, problem-based approaches and higher order thinking skills, and to maintain and upgrade LPS information technology infrastructure.

We note that the funding strategy for annual school technology requests has transitioned from debt to cash capital, which is reasonable given the relatively limited lifetimes of the hardware.

School capital requests for FY2023 are detailed below:

Description	Funding Request	Funding Source
Tech Workstations	\$ 173,400	GF
PreK-5 Mobile Devices	\$ 105,300	GF
1:1 Middle School Program	\$ 212,610	GF
1:1 at Lexington High School	\$ 180,480	GF
Science/Technology/Engineering/(Art)/Math (STEM/STEAM)/Computer Science	\$ 80,800	GF
Interactive Projectors/Whiteboard Units and Document Cameras	\$ 240,416	GF
District and Building Network Infrastructure	\$ 330,000	GF
Server/Storage Infrastructure	\$ 20,000	GF
TOTAL	\$ 1,343,006	

Tech Workstations - Replace Unit A (all classroom teachers, counselors, librarians and staff working under the teacher contract, "Unit A") workstations and peripheral devices (laptops, desktops, printers and monitors). Staff workstations were primarily replaced from FY2020 funds, thus minimal replacements are budgeted for this cycle.

(150 laptops @ \$1,075 each, 5 laptops/workstations @ \$1,000 each, 10 printers @ \$440 each, and 10 monitors @ \$275 each)

PreK-5 Mobile Devices - Replace 260 Grade 1 iPads across all district Grade 1 classes due to current devices having reached their end of life. (260 iPads @ \$405 each)

1:1 Middle School Program - Purchase 570 Chromebooks for 6th graders entering Diamond and Clark Middle Schools. All middle school students have 1:1 devices, and the devices follow them through middle school (three-year life span).

1:1 at Lexington High School - Purchase 640 Chromebooks for 9th graders. All high school students, once provided a device in 9th grade or upon entering the high school, have the device through their senior year (four-year life span).

Science/Technology/Engineering/(Art)/Math (STEM/STEAM)/Computer Science - Update district computer labs at Middle School/High School level and to purchase STEM/STEAM based curricular materials. (two labs @ \$37,400 each, \$6,000 for STEM/STEAM Materials)

Interactive Projectors/Whiteboard Units and Document Cameras - Replace 48 interactive projectors districtwide. This equips buildings with a touch-activated interactive system with a new ceramic whiteboard and soundbar. The replacements will begin with the oldest model per school until all systems are within a 5-year window with all of the same functionality. The request will also replace 28 document cameras at middle schools, with remaining schools planned in future years. As part of new school construction, some schools have newer document cameras and other schools have had document cameras replaced prior to this year. (48 projectors @ \$4,640 each, 28 document cameras @ \$632 each)

District and Building Network Infrastructure - Replace switches at the high school that control internet and internal connections (\$40,000), replace switches districtwide that support internal connections in schools (\$90,000), and replace the electronic devices that support the schools' virtual networks (\$200,000).

Server/Storage Infrastructure - Maintain and upgrade server-related hardware.

Article 16 Appropriate for Public Facilities Capital Projects		
Funds Requested	Funding Source	Committee Recommendation
\$2,611,940	<i>See below</i>	[a-g] Approve (8-0) [h] Dis/Approve (?-?)

This article requests funds for the facilities projects summarized below. For further discussion of these items, please see the report of the Capital Expenditure Committee and the referenced Brown Book pages. The Committee concurs with the discussion presented by the Capital Expenditure Committee in its report.

Article	Item	Funds Requested	Funding Source	Brown Book
16(a)	Public Facilities Bid Documents	\$ 100,000	Free Cash	XI-13
16(b)	Facility and Site Improvements: Building Floor Program	\$ 150,000	Free Cash	XI-13
	School Paving & Sidewalks Program	\$ 145,000	Free Cash	XI-13
16(c)	Public Facilities Mechanical/Electrical System Replacements	\$ 787,000	Free Cash	XI-13
16(d)	Municipal Building Envelopes and Associated Systems	\$ 219,540	Tax Levy	XI-13
16(e)	Townwide Roofing Program	\$ 428,000	GF Debt	XI-7
16(f)	School Building Envelopes and Associated Systems	\$ 251,400	Free Cash	XI-14
16(g)	High School Equipment Emergency Funds	\$ 500,000	GF Debt	XI-7
16(h)	Town Pool Water Heater Replacement	\$ 31,000	Free Cash	XI-14
TOTAL		\$ 2,611,940		

Article 17 Appropriate to Post Employment Insurance Liability Fund

Funds Requested	Funding Source	Committee Recommendation
\$1,935,486	Free Cash Tax Levy Water EF Wastewater EF	Approve (8-0)

This article requests the appropriation of \$1,935,486 into the Post Employment Insurance Liability (PEIL) Funds. The PEIL Fund holds funds that will be used in the future to pay for health care benefits for retirees. These benefits make up most of the “other post-employment benefit” (OPEB) that the Town provides as part of the total compensation for its employees. For a detailed discussion of OPEB, the present status of the PEIL Fund, and related issues, please see Appendix F.

The Town of Lexington’s future OPEB liabilities are not fully funded. The unfunded liability is the sum of the actuarially determined obligations incurred during current and prior fiscal years that have not been funded (via contributions to the PEIL Fund). Every year, the unfunded liabilities grows by the present value of future benefits earned during the current year, less the value of benefits provided to retirees during the current year through the operating budget, and less any contribution to the PEIL Fund for future liabilities.

One benefit of contributing to the PEIL Fund is that, like the pension fund, it can be invested in equities and earn a higher return than typical Town-managed funds, thus reducing future liabilities. Although the Committee recognizes that there are valid alternative priorities to which some portion of these funds could be allocated, such as additional bolstering of our Capital Stabilization Fund to help address significant upcoming capital investment challenges, it supports this year’s proposed PEIL appropriation request.

Article 18 Rescind Prior Borrowing Authorizations

Funds Requested	Funding Source	Committee Recommendation
None	N/A	Dis/Approve (?-?)

To see if the Town will vote to rescind the unused borrowing authority voted under previous Town Meeting articles; or act in any other manner in relation thereto.

DESCRIPTION: State law requires that Town Meeting vote to rescind authorized and unissued debt that is no longer required for its intended purpose.

Article 19 Establish, Amend, Dissolve and Appropriate To and From Specified Stabilization Funds

Funds Requested	Funding Source	Committee Recommendation
<i>See below</i>	<i>See below</i>	Dis/Approve (?-?)

To see if the Town will vote to create, amend, dissolve, rename or appropriate sums of money to and from Stabilization Funds in accordance with Massachusetts General Laws, Section 5B of Chapter 40, for the purposes of: (a) Section 135, Zoning By-Law; (b) Traffic Mitigation; (c) Transportation Demand Management/Public Transportation; (d) Special Education; (e) Center Improvement District; (f) Debt Service; (g) Transportation Management Overlay District; (h) Capital; (i) Payment in Lieu of Parking; (j) Visitor Center Capital Stabilization Fund; (k) Affordable Housing Capital Stabilization Fund; (l) Water System Capital Stabilization Fund; and (m) Ambulance Stabilization Fund; determine whether such sums shall be provided by the tax levy, by transfer from available funds, from fees, charges or gifts or by any combination of these methods; or act in any other manner in relation thereto.

DESCRIPTION: This article proposes to establish, dissolve, and fund Stabilization Funds for specific purposes and to appropriate funds therefrom. Money in those funds may be invested and the interest may then become a part of the particular fund. These funds may later be appropriated for a specific designated purpose by a two-thirds vote of an Annual or Special Town Meeting, for any other lawful purpose.

Article 20 Appropriate for Prior Years' Unpaid Bills

Funds Requested	Funding Source	Committee Recommendation
Unknown	Unknown	Approve (8-0)

To see if the Town will vote to raise and appropriate money to pay any unpaid bills rendered to the Town for prior years; to determine whether the money shall be provided by the tax levy, by transfer from available funds, or by any combination of these methods; or act in any other manner in relation thereto.

DESCRIPTION: This is an annual article to request funds to pay bills after the close of the fiscal year in which the goods were received or the services performed and for which no money was encumbered.

Article 21 Amend FY2022 Operating, Enterprise and CPA Budgets

Funds Requested	Funding Source	Committee Recommendation
<i>See below</i>	<i>See below</i>	Dis/Approve (?-?)

This article allows needed revisions to current year operating, enterprise, and CPA budgets. This article is generally acted upon late in town meeting in case a need for additional revisions arises. As of press time, the following revisions have been proposed. **(Speak to Carolyn Kosnoff)**

The first recognizes the receipt of \$491,851.14 of insurance reimbursements during FY2021 by increasing FY2021 Article 4 line item 2220 "Uninsured Losses" from \$250,000 to \$741,851.14. The reimbursements are for expenditures the Town made for building repairs and the replacement of a significant amount of information technology equipment following a water pipe break in the Town Office building in February 2020. Per Massachusetts General Law, any insurance proceeds over \$150,000 must be reserved for appropriation. The funds are currently held in, and will be transferred from, the *Insurance Reimbursement Receipts Reserved for Appropriation Fund*. We note that the Uninsured Losses line item functions as a continuing balance account, with

funds carrying over from one fiscal year to the next. The balance in the account as of June 30, 2020 was \$774,208. See Brown Book, p. IV-8.

The second revision recognizes a \$32,000 reduction in the costs of the Town's contract with LexMedia in FY2021, following the renegotiation of that contract in June 2020, by decreasing FY2021 Article 4 line item 8140 "PEG" from \$627,151.00 to \$595,151.00. The funds will be restored to the PEG Access Special Revenue Fund, which is the source of funds for line item 8140, as well as small parts of two other line items, 2130 "Employee Benefits (Health/Dental/Life/Medicare)" and 2600 "Public Facilities."

The third revision recognizes additional revenue from the state CPA surcharge match, which must be appropriated into four CPA sub-accounts.

Article 22 Appropriate for Authorized Capital Improvements

Funds Requested	Funding Source	Committee Recommendation
Unknown	Unknown	Approve (8-0)

To see if the Town will vote to make supplementary appropriations to be used in conjunction with money appropriated in prior years for the installation or construction of water mains, sewers and sewerage systems, drains, streets, buildings, recreational facilities or other capital improvements and equipment that have heretofore been authorized; determine whether the money shall be provided by the tax levy, by transfer from the balances in other articles, by transfer from available funds, including enterprise funds and the Community Preservation Fund, by borrowing, or by any combination of these methods; or act in any other manner in relation thereto.

DESCRIPTION: This is an annual article to request funds to supplement existing appropriations for certain capital projects in light of revised cost estimates that exceed such appropriations.

Article 23 Appropriate From Debt Service Stabilization Fund

Funds Requested	Funding Source	Committee Recommendation
\$124,057	DSSF	Approve (8-0)

In August 2006, the Town received a lump-sum reimbursement of approximately \$14 million from the Massachusetts School Building Authority (MSBA) to cover its remaining obligation for construction projects previously completed at Clarke and Diamond Middle Schools and Lexington High School. The Massachusetts Department of Revenue (DOR) required the Town to set aside the excess funds from this upfront reimbursement for these school construction projects, and to apportion those funds over the life of the bonds related to the projects to help fund the debt service.

The 2009 Annual Town Meeting voted to establish a specified stabilization fund under G.L. c. 40 Section 5B called the Debt Service Stabilization Fund (DSSF). The \$1,739,894 remaining from the FY2007 set-aside was then appropriated into the DSSF. This fund allows the Town to invest the set-aside funds beyond the one-year arbitrage limit that would otherwise apply.

The current balance in the DSSF is **????**. The bonds for the subject school construction projects mature in 2023, and this request will mark the final appropriation from the DSSF.

Article 24 Adjust Retirement COLA Base for Retirees		
Funds Requested	Funding Source	Committee Recommendation
None	N/A	Approve (8-0)

Background

The Town of Lexington has a Retirement Board that manages the pension fund for the Town's municipal and non-educational school employees. (Teachers' pensions are managed by the State.) The Retirement Board establishes the amount the Town must contribute each year to cover the Town's portion of the "normal cost" of funding these employees' pension benefits earned in that year, and also establishes the amount the Town must contribute to amortize the Town's unfunded liability. Per the most recent actuarial valuation, done in January 2021, the unfunded liability is scheduled to be fully funded by FY2030, at which point the annual appropriations of about \$8 million will decrease substantially to the amounts needed solely to fund the Town's share of the normal costs, as can be seen in the table below.

History of COLA's

Historically, both state and municipal pension COLA's were determined by the state legislature. The first COLA law, passed in 1966, provided for a COLA to be paid only to retirees receiving a pension of \$5,000 or less. Subsequently, COLA benefits were expanded; however, because any enhancement of pension benefits can have a significant effect on unfunded liabilities, that expansion was gradual and sometimes controversial.

In 1971, the legislature increased the COLA base to \$6,000 and made COLA's available to all pension recipients, not just those receiving less than the base. In 1980, following the passage of Proposition 2½, the State began picking up the expense for local boards, but because of the impact on the state's unfunded liability only three COLA's were approved between 1989 and 1997.

In 1997, at the urging of the retirees' association, the legislature transferred responsibility for both awarding and funding COLA's to local boards, subject to local acceptance, and increased the COLA base, then at \$9,000, to \$12,000. The relevant statutes, G.L. c. 32, §§ 21 and 103, provide for an annual COLA on that base "equal to the percentage increase in the Consumer Price Index or 3 percent, whichever is less." However, in 1999, a special act was passed allowing state and local boards to award a COLA exceeding the CPI but not exceeding 3%, subject to local acceptance. Since that time the Lexington Retirement Board, and other state and local boards, have consistently awarded an annual COLA of 3%.

In 2010, the legislature amended G.L. c. 32, §103 to allow an increase in the maximum base amount on which the COLA is calculated, in multiples of \$1,000, subject to a majority vote of the local retirement board and approval of Town Meeting. An increase in the base, once adopted, is irrevocable. In Lexington, Town Meeting voted in 2015 to approve an increase in the COLA base from \$12,000 to \$13,000. The current base in other localities with retirement boards varies, ranging from \$12,000 (e.g., Concord, Belmont, Winchester), to \$15,000 (e.g., Arlington, Wellesley), up to one outlier at \$18,000 (Hampden County).

In 2017, Lexington approved the Retirement Board's COLA base from \$13,000 to \$14,000.

The present article now seeks a further increase in the Lexington Retirement Board's COLA base from \$14,000 to \$15,000. The state-administered COLA base applicable to Lexington teachers remains at \$14,000, although there are legislative initiatives to increase that base as well going forward. With a COLA base of \$14,000 and a COLA of 3%, a benefit recipient may have his or her allowance increased by a maximum of \$390 per year. With a COLA base of \$15,000 and a COLA of 3%, a benefit recipient may have his or her allowance increased by a maximum of \$420 per year.

The contribution is set to increase by \$750,000 each year, with the exception of the final year, when the contribution decreases by \$4.0 million. This results in a FY2023 contribution of \$8,250,000, consistent with the prior valuation. The schedule is 8 years long, finishing in FY2030.

The current median employee pension payment is \$22,445 and the average is \$28,000. Note that the average Lexington municipal employee pension benefit payments in 2016 were:

- To female retirees, \$15,666

- To male retirees, \$35,420
- To all retirees, \$23,827.

About one-quarter of the Town's current 471 retirees and beneficiaries in pay status as of December 1, 2021, receive pensions of \$14,000 or less. These beneficiaries will not be affected by this change until their pensions grow to exceed \$14,000 as a result of annual COLA increases.

Analysis

There is no immediate appropriation associated with this request. However, if the COLA base increase is approved by Town Meeting and the Retirement Board's currently proposed employer contribution and amortization schedule is followed, there will be a significant future impact on the operating budget, particularly in FY2023 and FY2024.

[John's version follows]

This article requests Town Meeting approval of the acceptance by the Retirement Board of an increase from \$14,000 to \$15,000 in the maximum base amount upon which a retiree's pension cost-of-living adjustment ("COLA") is calculated. Because the cost of making this change has already been incorporated in the proposed FY2023 operating budget, no separate appropriation is requested here.

Background

The Town of Lexington has a Retirement Board that manages the pension fund for the Town's municipal and non-educational school employees. (Teachers' pensions are managed by the State.) The Retirement Board establishes the amount the Town must contribute each year to cover the Town's portion of the "normal cost" of funding these employees' pension benefits earned in that year, and also establishes the amount the Town must contribute to amortize the Town's unfunded liability. Per the most recent actuarial valuation, done in January 2021, the unfunded liability is scheduled to be fully funded by FY2030, at which point the annual appropriations of about \$8 million will decrease substantially to the amounts needed solely to fund the Town's share of the normal costs.

History of COLA's

Historically, both state and municipal pension COLA's were determined by the state legislature. The first COLA law, passed in 1966, provided for a COLA to be paid only to retirees receiving a pension of \$5,000 or less. Subsequently, COLA benefits were expanded; however, because any enhancement of pension benefits can have a significant effect on unfunded liabilities, that expansion was gradual and sometimes controversial.

In 1971, the legislature increased the COLA base to \$6,000 and made COLA's available to all pension recipients, not just those receiving less than the base. In 1980, following the passage of Proposition 2½, the State began picking up the expense for local boards, but because of the impact on the state's unfunded liability only three COLA's were approved between 1989 and 1997.

In 1997, at the urging of the retirees' association, the legislature transferred responsibility for both awarding and funding COLA's to local boards, subject to local acceptance, and increased the COLA base, then at \$9,000, to \$12,000. The relevant statutes, G.L. c. 32, §§ 21 and 103, provide for an annual COLA on that base "equal to the percentage increase in the Consumer Price Index or 3 percent, whichever is less." However, in 1999, a special act was passed allowing state and local boards to award a COLA exceeding the CPI but not exceeding 3%, subject to local acceptance. Lexington accepted the option in 1999 and, since that time, its Retirement Board has consistently adopted an annual COLA of 3%.

In 2010, the legislature amended G.L. c. 32, §103 to allow an increase in the maximum base amount on which the COLA is calculated, in multiples of \$1,000, subject to a majority vote of the local retirement board and approval of Town Meeting. An increase in the base, once adopted, is irrevocable.

In Lexington, Town Meeting voted in 2015 to approve an increase in the COLA base from \$12,000 to \$13,000; and in 2017 it approved an increase from \$13,000 to \$14,000. The current base in other localities with retirement boards ranges from \$12,000 to \$18,000. The state-administered COLA base currently applicable to Lexington teachers is \$13,000, although there are legislative initiatives to increase that base as well going forward.

Current Request

This article seeks Town Meeting's approval of a further increase in the Lexington Retirement Board's COLA base from \$14,000 to \$15,000. With the current COLA base of \$14,000 and a COLA of 3%, a benefit recipient's

allowance would increase by a maximum of \$420 per year. With an enhanced COLA base of \$15,000 and a COLA of 3%, a benefit recipient's allowance would increase by a maximum of \$450 per year, i.e., \$30 more.

The current median employee pension payment is \$22,445 and the average is \$28,000. For a retiree receiving the average annual benefit of \$28,000, the current COLA base of \$14,000 reduces the effective cost-of-living adjustment from the nominal 3% to 1.5%. An increase in the COLA base to \$15,000 would slightly increase the COLA adjustment to 1.6%. About one-third of the Town's current 471 retirees and beneficiaries in pay status as of December 1, 2021, receive pensions of \$15,000 or less. Most of these recipients would not be affected by this article, at least in the short run, as the 3% COLA already applies to their entire pension payments.

Analysis

Adoption of the COLA base increase would increase the Town's collective annual benefit obligation in FY2023 ("normal cost") by approximately \$9,900, which is not a substantial amount. However, taking into account the actuarial value of payments in future years, the change would increase the Town's unfunded pension liability by a little over \$1,000,000, requiring a significant increase in annual amortization costs in the near term. The current plan is to amortize the additional unfunded liability with level annual payments of a little over \$200,000 beginning in FY2023. Once full funding of the unfunded liability has been achieved, the Town would be obligated to pay annually only the "normal cost" of the enhanced benefit.

Because the normal and amortization costs of the proposed increase in the COLA base in FY2023 have already been incorporated in the proposed operating budget (line 2100, "Employee Benefits"), there is no immediate appropriation associated with this request. However, if the COLA base increase is not approved by Town Meeting, the budgeted amounts would be freed up and could be appropriated for other purposes.

It should be noted that there may be future requests for increases to the COLA base, with similar impacts on the funding obligation of the Town for new unfunded liabilities.

Recommendation of the Committee

There is a compelling logic to the concept that a pension should not lose value due to changes in the cost of living, and the Committee is generally supportive of steps that will bring the municipal pension COLA into closer alignment with CPI changes. For the last several years, with very small increases in the Consumer Price Index (CPI), the maximum 3% COLA has not been unreasonable, even with the limited COLA base. However, as inflation re-emerges (the CPI adjustment this year for Social Security beneficiaries was 5.9%), the combined effect of the COLA base and the 3% COLA will impose a hardship which the COLA base increase will help, at least in small part, to mitigate.

The Committee recognizes that a pension COLA is but one of many terms of the "total compensation" of Town employees—including wages, hours, sick leave, vacation leave, and health benefits for both active and retired employees—most of which are subject to negotiation in the collective bargaining process. The Committee presumes that when the Select Board, acting through the Town Manager, negotiates collective bargaining agreements with the Town's employee unions, it will take into account any enhancement of benefits adopted "off line" by Town Meeting, such as the COLA base increase sought here, in seeking a "total compensation" package that is fair, reasonable and competitive.

Article 25 Appropriate for Worthen Road Recreation and Education District Land Use Concept Plan

Funds Requested	Funding Source	Committee Recommendation
\$175,000 (?)	Unknown	Dis/Approve (?-?)

To see if the Town of Lexington ("Town") will raise and appropriate a sum of money to be expended under the direction of the Town Department of Public Facilities and Permanent Building Committee for a Land Use Concept Plan ("Plan") for the Worthen Road Recreation and Education District and any costs incidental thereto; and determine whether the money will be provided by the tax levy, by transfer from available funds, by borrowing or by any combination of these methods; or act in any other manner in relation thereto. The Plan will address planning considerations such as appropriate land uses, vehicular and pedestrian circulation, parking, ecological impact,

active and passive recreation, public events programming, adjacent residential neighborhoods, and the future of LHS, among others that will contribute to land use in the District.

DESCRIPTION: This Article seeks funding for a Land Use Concept Plan (“Plan”) for the Worthen Road Recreation and Education "District" to determine the optimal post construction potential and the construction phase scope, schedule, cost, and logistical challenges associated with achieving that potential.

Article 26 Appropriate for Nexus Studies		
Funds Requested	Funding Source	Committee Recommendation
\$75,000	Unknown	Dis/Approve (?-?)

To see if the Town will vote to appropriate funding for the hiring of consulting services to produce two linkage fee nexus studies; or act in any other manner in relation thereto.

DESCRIPTION: This article would appropriate funds for the hiring of consultant services to perform two studies needed for the implementation of linkage fee special legislation in accordance with the passage of Special Town Meeting 2020-2 Article 6 and Annual Town Meeting 2021 Article 36. Results and findings from the studies will establish the linkages between commercial and residential development and their specific impacts on housing in Lexington, and will provide data-driven decision criteria for the Select Board's implementation and rate setting of fees.

Appendix A: 5-Year Budget Projections

For the past two decades, the Appropriation Committee has prepared budget projections that were presented in appendices to the Committee's annual ATM reports. At the time those projections started, Town staff did not publish any comparable projections. More recently, however, the Town's Finance Department has begun to prepare its own forecasts for use in the Budget Summit process in preparation for the next fiscal year's proposed budget. **Projections for FY2023 were presented at the first budget summit held on October 14, 2021.** Subsequently, the department made modest revisions to reflect the proposed budget for FY2023 presented in the Brown Book.

Rather than prepare separate projections for Town Meeting, this year we will continue a practice begun last year and will summarize the Finance Department's projections and discuss their implications in planning for future Town budgets.

Budget figures in the tables in this appendix are given in thousands of dollars.

Summary of Projections

Table A-1 summarizes total revenues and expenses, showing actual results for FY2020-21, revised budgeted figures for FY2022 (still underway), the proposed budget for FY2023 presented in the Brown Book, and projected figures for FY2024-FY2027. The bottom line shows the net surplus (deficit). For FY2020 and FY2021 the Town ran substantial overall surpluses, about 6.3% of expenses in FY2020 and about 5.4% in FY2021. These surpluses were then available for the Town in the next year in the form of free cash. For FY2022, currently underway, the revised budget shows income and expenses in balance, as required under state law. After actual new growth is known and Free Cash is certified, the current year, FY2022, may also show a surplus. Normally fiscal years will end with a surplus because Town budgets are generally conservative in the sense that they strive not to overestimate revenues or underestimate expenses to ensure that the Town does not run a deficit (which is forbidden under state law). Similarly, the recommended budget for FY2023 will be balanced, and it seems likely that the final actual figures will result in a surplus as a result of the Town's conservative approach to budgeting.

Table A-1. Actual and Projected Revenues and Expenses

Revenue Category	FY2020 Actual	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
Total Revenues	\$ 231,987	\$ 237,804	\$ 250,645	\$ 260,368	\$ 262,081	\$ 269,065	\$ 277,971	\$ 287,095
Total Expenses	\$ 218,250	\$ 225,582	\$ 250,645	\$ 260,368	\$ 262,746	\$ 274,188	\$ 285,130	\$ 296,422
Revenue - Expenses	\$ 13,737	\$ 12,222	\$ —	\$ —	\$ (665)	\$ (5,122)	\$ (7,160)	\$ (9,328)
As % of expenses	6.3%	5.4%	—%	—%	(0.3)%	(1.9)%	(2.5)%	(3.1)%

All dollar amounts shown in thousands.

The projections beyond the FY2023 budget under consideration show projected expenses exceeding projected revenues, yielding deficits ranging from 0.2% of expenses in FY2024 to 3.1% in FY2027. However, any projection of revenues or expenses is subject to considerable uncertainty, as we discuss in greater detail below. When the time comes to prepare a budget for one of those years, if the projection still indicates a deficit, changes will have to be made to bring budgeted expenses and revenues into line with one another. **We note that the projections originally presented at the first budget summit in October 2021 for FY2022 showed a deficit of just over \$3.4 million,** but a combination of adjustments, including limited program improvements and increasing the use of available funds, brought that budget into balance.

Projections, particularly those several years out and those made in times of uncertain inflationary pressures, are subject to substantial uncertainties, however the projected deficits suggest a modest revenue increase and the need to control costs. We present the projections in more detail below.

Projected Revenues

Table A-2a shows projections of various revenue categories and provides notes on the assumptions behind those projections. Property taxes dominate revenues, accounting for 80% of total revenues in FY2020 (actuals) rising to 86% in the projection for FY2027. As a result, the assumptions concerning property tax revenues are critical to the projections.

Table A-2a. Projected Revenues by Category

Revenue Category	FY2020 Actual	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
1 Property Tax Levy	\$184,822	\$194,330	\$204,229	\$212,113	\$220,166	\$228,420	\$236,881	\$245,553
2 State Aid	\$16,256	\$16,335	\$16,492	\$16,785	\$16,990	\$17,196	\$17,403	\$17,611
3 Local Receipts	\$16,824	\$15,358	\$12,628	\$13,488	\$13,813	\$14,018	\$14,229	\$14,447
4 Available Funds	\$14,264	\$11,805	\$17,825	\$18,508	\$11,625	\$9,931	\$9,945	\$9,959
5 Revenue Offsets	\$ (1,875)	\$ (1,774)	\$ (1,961)	\$ (2,332)	\$ (2,373)	\$ (2,416)	\$ (2,460)	\$ (2,506)
6 Other Revenues	\$1,696	\$1,749	\$1,432	\$1,806	\$1,860	\$1,916	\$1,973	\$2,032
7 Total Revenues	\$231,987	\$237,804	\$250,645	\$260,368	\$262,081	\$269,065	\$277,971	\$287,095

Notes on assumptions

1 Property Tax Levy	Reflects statutory allowable growth of 2.5% and assumed new growth of \$2.75 million annually.
2 State Aid	Assumes FY2022 Chapter 70 aid level-funded, then increasing at \$25 per pupil Minimum Aid in FY2023-26. Decrease in Veterans Benefit reimbursements in FY2022.
3 Local Receipts	Assumes modest growth in local receipts based on evaluation of historical averages, with near full return of local excise in FY2023.
4 Available Funds	Free Cash estimate of \$10,500,000 available for FY2023 and \$9,000,000 for FY2024-2026. Annual contributions of \$141,000 from TDM Stabilization Fund to support Lexpress and the Alewife Shuttle, \$385,000 from Parking Fund to support Traffic Bureau and snow removal; and \$50,000 from Cemetery Fund to support Cemetery Division. In FY2022-2023, \$750,000 annually from balance of Health Claims Trust Fund to be used to fund health insurance, resulting in an equal amount in the tax levy becoming available to fund contributions to OPEB Trust per Select Board policy. Includes in FY2022-FY2026 use of Capital Projects Stabilization Fund to offset within-levy debt service, as detailed under Line 14 in the Expense summaries below.
5 Revenue Offsets	\$750K for overlay (property tax abatement and exemptions) in FY2022-26. \$400K set-aside for snow & ice deficit annually; Also includes Cherry Sheet Assessments increasing at 3.5% annually and Cherry Sheet Offsets (State Aid to Public Libraries).
6 Other Revenues	Assumes FY2022 Water and Sewer Indirects increasing by 3% annually.

All dollar amounts shown in thousands. Source: Lexington Finance Department

Table A-2b shows the projected year-to-year percentage increases in the various revenue categories. Keep in mind that many sources of FY2021 and FY2022 revenues were heavily impacted by the pandemic. Note that the Property Tax Levy grows more slowly from FY2023–FY2027 than in the earlier years. Local Receipts also are greatly reduced from the proposed FY2023 levels. In both cases, the differences appear to reflect conservative assumptions, which we discuss in more detail below for property tax revenues. The other notable change is in Available Funds, which shrink in the projected years due to lower levels of free cash. **This is due to some of the more aggressive changes noted above to close the shortfall in the FY2022 proposed budget, which will lower free cash for the next fiscal year.**

Table A-2b. Annual Rates of Increase in Revenues

Revenue Category	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
1 Property Tax Levy	5.1%	5.1%	3.9%	3.8%	3.7%	3.7%	3.7%
2 State Aid	0.5%	1.0%	1.8%	1.2%	1.2%	1.2%	1.2%
3 Local Receipts	(8.7)%	(17.8)%	6.8%	2.4%	1.5%	1.5%	1.5%
4 Available Funds	(17.2)%	51.0%	3.8%	(37.2)%	(14.6)%	0.1%	0.1%
5 Revenue Offsets	(5.4)%	10.6%	18.9%	1.8%	1.8%	1.8%	1.9%
6 Other Revenues	3.1%	(18.1)%	26.1%	3.0%	3.0%	3.0%	3.0%
7 Total Revenues	2.5%	5.4%	3.9%	0.7%	2.7%	3.3%	3.3%

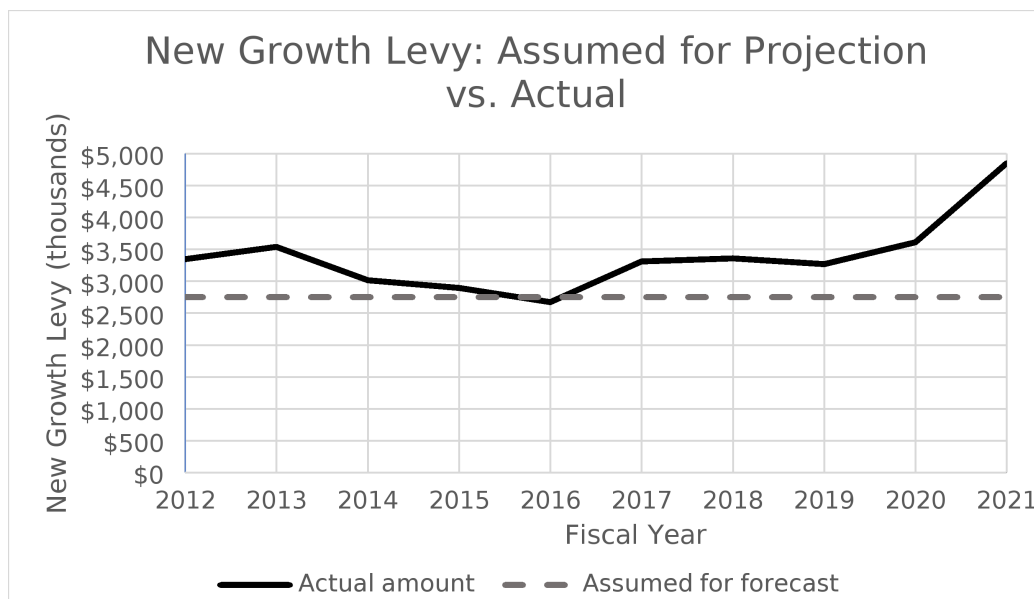
Note: Each entry shows the percentage change from the previous year, calculated from Table A-2a

It is important to note that Available Funds that can be used for the operating budget is decreasing in the projected FY2024 and FY2025 due to a program to transition out of using Free Cash for the operating budget. This program

was suspended for the FY2022 budget, so the FY2021 and FY2022 operating budgets each relied on \$2.2 million of Free Cash. Starting in FY2023 this is to be reduced by \$700,000 annually, with \$1.5 million to be used in FY2023, \$800,000 in FY2024, and only \$100,000 in FY2025. This transition has the net effect of having \$700,000 more available in each of these years to fund non-recurring items such as Cash Capital, OPEB, or the Capital Stabilization Fund.

Proposition 2½ limits growth in the property tax levy to 2.5% each year plus an allowance for growth in the tax base resulting from capital investment, e.g., construction and renovation, commonly called “New Growth.” The limit on the tax levy may be temporarily exceeded to cover debt service on projects that are deemed exempt from Proposition 2½ as the result of a town-wide referendum. In addition, a successful operating override referendum can permanently increase the tax levy limit.

Leaving aside exempt debt service and operating overrides, New Growth is the key determinant of increases in property tax revenues. The Finance Department’s projections assume that New Growth will be \$2.75 million per year, up slightly from the \$2.5 million assumed in recent prior years. As shown in the figure below, this assumption is conservative in the sense that it is lower than the actual new growth in nine of the last ten fiscal years.



The average for New Growth over the last ten years was \$3.38 million. If we use this average rather than the assumed \$2.75 million, this results in an additional \$630,000 per year in projected revenue, which is further compounded by the 2.5% annual increase in the tax levy.

The Finance Department’s projection assumes that the conservative figure assigned for New Growth in the budget can be used as a valid projection, but in the long run this will underestimate future tax revenue. The budget for New Growth is intentionally set well below the expected value as a safeguard against a budget shortfall, which could result if actual New Growth fell below the budgeted amount. A more realistic projection should instead be based on measurable trends, including, but not limited to, the long-term average for New Growth. Table A-3 shows the cumulative increase in projected revenues over five years, which grows to \$3,311,000 by FY2026. This represents roughly 17.5% of the projected revenue gap shown in Table A-1.

**Table A-3. Impact of Using Historical Average of New Growth Levy
Rather than Assuming \$2.75 million per Year**

	FY2022	FY2023	FY2024	FY2025	FY2026
Annual increment	\$ 630	\$ 630	\$ 630	\$ 630	\$ 630
Cumulative impact	\$ 630	\$ 1,276	\$ 1,938	\$ 2,616	\$ 3,311

Notes: Annual increment = difference between historical average and value assumed in projection
Cumulative impact = prior balance x 1.025 + annual increment

It is more difficult to evaluate the assumptions regarding the projections of other revenue categories, but we note that past forecasts for those other categories have not been consistently low or high.

However, for total revenues in the last three completed fiscal years (FY2018–FY2020), actual revenues have been higher than projected, especially for projections made several years in advance. For example, projections for FY2020 made in 2016 were 7.2% below actuals and those for FY2019 made in 2015 were 11% lower than the actual.

Projected Expenses

Table A-4a shows the Finance Department's expense projections by category.

Table A-4a. Projections of Expenses

Expense Category	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
<u>Education</u>	\$ 118,138	\$ 126,507	\$ 131,478	\$ 137,449	\$ 143,457	\$ 149,608	\$ 156,126
8 LPS Wages	\$ 96,736	\$ 102,655	\$ 106,450	\$ 110,070	\$ 114,011	\$ 117,929	\$ 122,091
9 LPS Expenses	\$ 18,538	\$ 20,722	\$ 21,804	\$ 23,832	\$ 25,545	\$ 27,387	\$ 29,315
10 Minuteman	\$ 2,863	\$ 3,130	\$ 3,224	\$ 3,546	\$ 3,901	\$ 4,291	\$ 4,720
<u>Municipal</u>	\$ 51,239	\$ 55,583	\$ 57,715	\$ 58,875	\$ 60,586	\$ 62,347	\$ 63,926
11 Municipal Wages	\$ 33,666	\$ 35,329	\$ 36,530	\$ 37,082	\$ 38,154	\$ 39,245	\$ 40,117
12 Municipal Expenses	\$ 17,573	\$ 20,254	\$ 21,185	\$ 21,793	\$ 22,432	\$ 23,103	\$ 23,808
<u>Shared Expenses</u>	\$ 17,683	\$ 19,711	\$ 17,647	\$ 18,824	\$ 20,020	\$ 21,236	\$ 22,473
13 Debt Service	\$ 7,834	\$ 8,077	\$ 7,542	\$ 7,919	\$ 8,315	\$ 8,730	\$ 9,167
14 Mitigate Within Levy	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
15 Land Purchase Note	\$ 2,403	\$ 2,320	\$ —	\$ —	\$ —	\$ —	\$ —
16 OPEB	\$ 750	\$ 1,880	\$ 1,930	\$ 1,980	\$ 2,030	\$ 2,080	\$ 2,130
17 Retirement	\$ 6,695	\$ 7,434	\$ 8,176	\$ 8,926	\$ 9,676	\$ 10,426	\$ 11,176
<u>Benefits</u>	\$ 28,362	\$ 31,371	\$ 32,743	\$ 34,367	\$ 36,071	\$ 37,862	\$ 39,743
18a Medicare	\$ 1,908	\$ 1,982	\$ 2,055	\$ 2,178	\$ 2,309	\$ 2,447	\$ 2,594
18b Health Insurance	\$ 25,448	\$ 28,270	\$ 29,554	\$ 31,032	\$ 32,584	\$ 34,213	\$ 35,924
18c Dental	\$ 986	\$ 1,093	\$ 1,109	\$ 1,131	\$ 1,154	\$ 1,177	\$ 1,201
18d Life	\$ 20	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
19 Reserve Fund	\$ —	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750
20 Workers' Comp.	\$ 875	\$ 750	\$ 625	\$ 500	\$ 450	\$ 400	\$ 400
21 Unemployment	\$ 64	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
22 Property & Lib. Ins.	\$ 791	\$ 845	\$ 895	\$ 940	\$ 987	\$ 1,036	\$ 1,088
23 Uninsured Losses	\$ 250	\$ 250	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
24 Solar Production	\$ 368	\$ 390	\$ 390	\$ 390	\$ 390	\$ 390	\$ 390
25 Capital	\$ 7,812	\$ 10,136	\$ 13,491	\$ 9,214	\$ 10,039	\$ 10,064	\$ 10,090
26 Other	\$ —	\$ 365	\$ 341	\$ 230	\$ 230	\$ 230	\$ 230
27 Approp. to Capital Stab	\$ —	\$ 3,731	\$ 3,085	\$ —	\$ —	\$ —	\$ —
28 Unallocated Revenue	\$ —	\$ —	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750
29 State Aid Reserve	\$ —	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57
30 Total Expenditures	\$ 225,582	\$ 250,645	\$ 260,368	\$ 262,746	\$ 274,188	\$ 285,130	\$ 296,422

Note: Amounts in italics are subtotals.

Table A-4b below provides the department's notes on the assumptions underpinning the projections.

Table A-4b. Notes on Projected Expenses

Expense Category	Notes on Assumptions
<u>Education</u>	
8 LPS Wages	Illustrates a level-services budget and does not include program improvements. Includes a 2.5% increase on base budget for step increases, current known salary COLA adjustments on settled contracts, and (\$850,000) for annual staff turnover savings. Assumes anticipated funding for unsettled contracts in FY2023-27. Includes additional staffing due to projected enrollment increases in FY2024-27 based on preliminary FY2022 Enrollment projections from Oct. 1 data. Recurring additional staff-related costs are inclusive of benefits, workers comp., and Medicare.
9 LPS Expenses	Program budget per pupil rates are adjusted by 4% Consumer Price Index (CPI) in FY2023 and 2.00% in FY2024-27; applied against preliminary projected enrollment levels. All other lines adjusted by 4% in FY2023 and 2.0% in FY2024-27. Special Education Out-of-District Tuition and Transportation lines are projected based on program trends. Approximately 81-85% of total expense line increases are driven by these budget lines (FY2023-27).
10 Minuteman	FY2024-27 projections increase by 10%.
<u>Municipal</u>	
11 Municipal Wages	Projections based on step increases for current staff, settled collective bargaining contracts, and anticipated contract settlements for out-years.
12 Municipal Expenses	Level-service budget using CPI of 7% for electricity, 5.5% for natural gas, 10% for IT software expenses, and 1.8% for all other expenses.
<u>Shared Expenses</u>	
13 Debt Service	Within levy debt service is projected to grow by 5% annually. Amounts above that will be mitigated by use of the Capital Stabilization Fund.
14 Mitigated Within Levy Debt Service	Within levy debt service mitigated by use of the Capital Stabilization Fund. FY2023-27 left as \$0 to not dilute the rest of the projections.
15 Land Purchase Note Retirement	Use of Free Cash to pay down short-term notes issued to pay for the land purchases at 173 Bedford St. and Pelham Rd.
16 OPEB	Continued funding of OPEB with a \$50,000 annual increase - future funding levels under review by Town Manager's Fiscal Guideline Working Group.
17 Retirement	Contributory Retirement assessment (based on 2030 amortization of unfunded liability and 7.25% interest rate assumption) plus Non-Contributory payments
<u>Benefits</u>	
18a Medicare	6% increase in Medicare, reflecting an increase in the number of eligible employees and increases in wages.
18b Health Insurance	FY2023, growing at 5% annually.
18c Dental	FY2023, growing at 2% annually.
18d Life	Level Funding
19 Reserve Fund	Level Funding
20 Workers' Comp.	Gradual reduction planned to maintain fund balance of \$2 million. Staff will continue to monitor and adjust out-year projections as needed.
21 Unemployment	Level Funding.
22 Property & Lib. Ins.	FY2022, growing at 5% annually.
23 Uninsured Losses	Level Funding. Staff may recommend further reductions in out-years to maintain fund balance at \$1 million.
24 Solar Production	Payments to Syncarpha for construction costs of Hartwell Ave. solar arrays. Level Funding.
25 Capital	Includes \$5.6M in cash capital in FY2023 carried over from FY2022, plus an additional \$2.1M in excess Free Cash leftover from the land purchases. Reflects addition of \$700K and \$800K in FY2024 and FY2025 from transition of Free Cash for operating budget. FY2023 also includes \$548K from from Non-GF sources and prior bond authorizations, \$2.67M for Street Improvement and \$219K for Municipal Building Envelope, portions of which grow at 2.5% through FY2027.
26 Other	Reflects various warrant articles such as Senior Tax Work-Off and \$200K in unanticipated needs in FY2023-27.
27 Approp. to Capital Stab. Fund	Reflects past and projected transfers to continue funding the Capital Stabilization Fund to cover the high school project.
28 Unallocated Revenue	Proposed allocation set-aside for yet to be determined priorities.
29 State Aid Reduction Reserve	Set-aside of tax levy tied to commercial new growth for Capital Stabilization Fund. Anticipated to grow in future years, tied to new revenue that is not captured in this model.

To simplify the discussion of the expense projections, Table A-5a aggregates the expense categories from Table A-4a. The three major groupings are Education, Municipal, and Shared Expenses. For Education, we show LPS and Minuteman separately. We provide a further breakdown for shared expenses, breaking out appropriations for capital projects and to the Capital Stabilization Fund and OPEB, all three of which are determined by explicit policy decisions, some of which are made after the Town knows actual new growth and the amount by which actual expenses are less than budgeted. The “other” shared expenses are dominated by employee benefits, the largest component of which is Health Insurance costs.

Table A-5a. Expense Projections Aggregated

Expense Category	FY2020 Actual	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
<i>Education</i>	<i>\$ 112,079</i>	<i>\$ 118,138</i>	<i>\$ 126,507</i>	<i>\$ 131,478</i>	<i>\$ 137,449</i>	<i>\$ 143,457</i>	<i>\$ 149,608</i>	<i>\$ 156,126</i>
LPS	\$ 109,609	\$ 115,275	\$ 123,377	\$ 128,254	\$ 133,902	\$ 139,556	\$ 145,317	\$ 151,406
Minuteman	\$ 2,470	\$ 2,863	\$ 3,130	\$ 3,224	\$ 3,546	\$ 3,901	\$ 4,291	\$ 4,720
<i>Municipal</i>	<i>\$ 48,371</i>	<i>\$ 51,239</i>	<i>\$ 55,583</i>	<i>\$ 57,715</i>	<i>\$ 58,875</i>	<i>\$ 60,586</i>	<i>\$ 62,347</i>	<i>\$ 63,926</i>
<i>Shared Expenses</i>	<i>\$ 57,800</i>	<i>\$ 56,205</i>	<i>\$ 68,556</i>	<i>\$ 71,175</i>	<i>\$ 66,422</i>	<i>\$ 70,144</i>	<i>\$ 73,175</i>	<i>\$ 76,371</i>
OPEB	\$ 1,880	\$ 750	\$ 1,880	\$ 1,930	\$ 1,980	\$ 2,030	\$ 2,080	\$ 2,130
Capital	\$ 8,137	\$ 7,812	\$ 10,136	\$ 13,491	\$ 9,214	\$ 10,039	\$ 10,064	\$ 10,090
Capital Stabil. Fund	\$ 2,269	\$ —	\$ 3,731	\$ 3,085	\$ —	\$ —	\$ —	\$ —
Other	\$ 45,514	\$ 47,643	\$ 52,809	\$ 52,669	\$ 55,228	\$ 58,076	\$ 61,032	\$ 64,151
Grand Total	\$ 218,250	\$ 225,582	\$ 250,645	\$ 260,368	\$ 262,746	\$ 274,188	\$ 285,130	\$ 296,422

Note: Amounts in italics are subtotals. Source: Aggregation of values in Table A-4a

Table A-5b shows the year-to-year percentage increases in the various aggregated categories. Education expenses are projected to grow more rapidly than municipal expenses. Within education, the Town’s contribution to Minuteman is projected to rise substantially more rapidly than the budgets for LPS. The Town plans to increase OPEB contributions at \$50,000 per year, a modest annual rate of about 2.5%.

Table A-5b. Annual Rates of Increase in Expenses

Expense Category	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
<i>Education</i>	<i>5.4%</i>	<i>7.1%</i>	<i>3.9%</i>	<i>4.5%</i>	<i>4.4%</i>	<i>4.3%</i>	<i>4.4%</i>
LPS	5.2%	7.0%	4.0%	4.4%	4.2%	4.1%	4.2%
Minuteman	15.9%	9.3%	3.0%	10.0%	10.0%	10.0%	10.0%
<i>Municipal</i>	<i>5.9%</i>	<i>8.5%</i>	<i>3.8%</i>	<i>2.0%</i>	<i>2.9%</i>	<i>2.9%</i>	<i>2.5%</i>
<i>Shared Expenses</i>	<i>(2.8)%</i>	<i>22.0%</i>	<i>3.8%</i>	<i>(6.7)%</i>	<i>5.6%</i>	<i>4.3%</i>	<i>4.4%</i>
OPEB	(60.1)%	150.6%	2.7%	2.6%	2.5%	2.5%	2.4%
Capital	(4.0)%	29.8%	33.1%	(31.7)%	8.9%	0.3%	0.3%
Capital Stabilization Fund	(100.0)%	**	(17.3)%	(100.0)%	**	**	**
Other	4.7%	10.8%	(0.3)%	4.9%	5.2%	5.1%	5.1%
Grand Total	3.4%	11.1%	3.9%	0.9%	4.4%	4.0%	4.0%

Note: Each entry shows the percentage change from the previous year, calculated from Table A-5a.

Planned contributions to the Capital Stabilization Fund to reduce the future impacts on taxes of the High School project show the greatest volatility, increasing from zero dollars in FY2021. Even in FY2026, the planned contribution is lower than the actual in FY2019 (and the actuals in FY2016-18, not shown in the tables). Capital spending levels off in FY2023 as the land-purchase notes are fully retired in FY2022 and that money is then directed to new projects. Other shared expenses are projected to rise at relatively low rates.

Concluding Remarks

The Finance Department’s projections appear to suggest that over the next five years, the Town will have to find ways to reduce expenses or increase revenues to maintain a balanced budget as required by state law. Additionally, it is uncertain as to how long the current high inflation environment will persist. However, our review suggests that the problems may be less severe than they appear because the Town follows a fairly conservative approach in forecasting revenues.

To address the financial strains suggested by the projections, some combination of actions may be needed to meet balanced budget requirements, such as:

1. Improving efficiency so that the same services can be provided with fewer resources. Such opportunities may well prove elusive.
2. Creating additional sources of revenue. There may be opportunities to increase some fees or add new ones, but it is not clear that there are opportunities for significant increases.
3. Reducing service levels.
4. Relaxing of some of the goals embodied in the Town's fiscal policies, e.g., curtailing contributions to the Capital Stabilization Fund or other reserves.
5. Passing Proposition 2½ operating override(s) to permanently boost annual property tax revenue.

Each of these alternatives involves policy tradeoffs for which this Committee offers no specific guidance.

It is also important to note that actions to reduce operating expenses, or to increase recurring annual revenues in one year will generally carry forward to reduce future deficits. For example, reductions in service levels, if not restored, will lower expenses in future years with no further action.

However, actions to eliminate a projected operating deficit using non-recurring revenue, particularly Free Cash, generally will not carry forward. Such actions tend to reduce the Free Cash that carries over into the next fiscal year. In successive years, the prior year's "solution" becomes increasingly difficult to implement as Free Cash and other non-recurring revenue is consumed but not replaced.

Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since the state legislature enacted legislation authorizing such funds, G.L. c. 44, § 53F ½, in the late 1980's. An enterprise fund "establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities"⁵ and are accounted for on an accrual basis. An enterprise fund provides management and taxpayers with information to measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. Enterprise funds may be operated on a stand-alone basis, i.e., supported by fees, or subsidized by the General Fund.

The Water and Wastewater Enterprise Funds operate on a completely stand-alone basis. These funds do not rely on any tax-levy revenues but cover their complete operating and capital needs with user charges and fees. **The Recreation Enterprise Fund is only partially stand-alone. It covers its operating costs with user charges and fees and contributes to the debt service on certain recreation capital projects (most recently, the Lincoln Field restoration project for which the debt has now been fully repaid).** Most recreation capital costs are subsidized by the General Fund through a combination of within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

Establishing the Enterprise Fund Budgets

At the Annual Town Meeting each year, Town Meeting appropriates an operating budget and authorizes capital expenditures for each of the three enterprise funds for the upcoming fiscal year. Later in the year (in the early fall in the case of the Water and Wastewater Enterprise Funds), user charges are set that are designed, based on projections of usage for the fiscal year, to be sufficient to cover the appropriations made by Town Meeting to run the enterprises.

Depending on the accuracy of the usage projections, the actual revenue realized by the enterprise during the year may exceed or fall short of the appropriated amount. Any operating surplus must be retained in reserve in the enterprise fund. The funds accumulated in that reserve (referred to as "retained earnings") may be applied only to meet the capital needs of the enterprise or to reduce user charges. Any operating loss (after applying any accumulated reserves in the fund), must be made up in the succeeding fiscal year's appropriation.

Since FY2007, the Annual Town Meeting Warrant has contained a separate Article for the appropriation of the enterprise fund operating budgets (previously, appropriations for the enterprise funds were commingled with those for the General Fund). This presentation makes it easier to understand the operating budgets of the enterprise funds. However, it should be noted that certain indirect costs that are charged by the General Fund to the enterprise funds are still appropriated as part of the municipal operating budget, this year in Article 4. For the complete operating costs of the enterprise funds, including indirect costs, see the Brown Book sections on Water, Wastewater, Recreation.

To present a more meaningful picture of the complete enterprise fund operating budgets, the tables included in the write-up of this article have been expanded from those presented in the Warrant to show the indirect as well as the direct costs of the funds. Debt service costs for previously approved capital expenditures are shown in the enterprise fund operating budgets. However, it should be noted that appropriations for capital needs of the enterprises, whether funded by cash or borrowing, are addressed in separate capital Warrant articles.

⁵ *Dept. of Revenue Enterprise Funds Manual (April 2008)*

Appendix C: Revolving Funds

Ordinarily, revenue received by any municipal department must be deposited in the General Fund and cannot be expended for any purpose without further appropriation by Town Meeting. A revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges, on an ongoing basis and without the need for further appropriation, to pay expenses for rendering the services for which those fees and charges are collected.

Revolving funds managed by municipal departments are generally governed by G.L. c. 44, § 53E1/2. (There are also several revolving funds managed by the School Department, such as the School Lunch Fund, which are governed by other statutes and are not within the control of Town Meeting.) Under Section 53E1/2, a municipal revolving fund can be established only by vote of Town Meeting.

Under the Municipal Modernization Act of 2016, a revolving fund may be established by bylaw and no longer requires annual reauthorization by Town Meeting. The bylaw must specify:

- the purpose(s) for which monies deposited in the fund may be used
- the source(s) of funds to be deposited
- the board, department or officer authorized to expend monies from the fund
- any other reporting requirement the Town may impose

Town Meeting is required each year to vote a limit on the total amount that may be expended from each revolving fund in the ensuing fiscal year. Expenditures may not be made, nor liabilities incurred, in excess of such limit or the balance of the fund except with the approval of the Select Board and this Committee. Any balance in the fund may be carried over to the next fiscal year. If a revolving fund is terminated, the balance in the fund reverts to the General Fund at the end of the fiscal year.

Appendix D: Tax Relief Programs

In early 2004, the Board of Selectmen created an ad hoc Tax Deferral and Exemption Study Committee to explore ways in which the property tax relief available to low and moderate-income senior citizens and other needy residents could be enhanced and made more accessible. Since then, with the guidance of this committee, Town Meeting has taken a succession of steps to expand such relief, for the most part maximizing the options that the Town is allowed to adopt under existing state law and, in some cases, using home rule petitions to further increase opportunities for tax relief.

The principal programs for tax relief now available to Lexington homeowners are:

- A state income tax “*Circuit Breaker*” program providing a state tax credit for low and moderate-income homeowners and renters age 65 and over (at no cost to the Town).
- A *tax deferral* program under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax, after applying any available exemptions, up to half the value of their house. The deferral need not be repaid until the house is sold or transferred. The interest rate applied to each year’s deferral is a variable rate designed to match the Town’s earnings on its funds. *See generally* G.L. c. 59, §5, clause 41A.
- A *tax exemption* program under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct \$2,000 from their annual property tax. *See generally* G.L. c. 59, § 5, clause 41C.
- A locally-controlled *Senior Service* program adopted by Town Meeting in 2006.
- A Community Preservation Act *surcharge exemption* program.

State Income Tax “Circuit Breaker”

Low- and moderate-income homeowners age 65 and over whose homes have an assessed valuation not greater than an annually adjusted ceiling may obtain a tax credit on their state tax returns (see table below). Low and moderate-income renters are also eligible for a tax credit. Qualified owners or renters are entitled to a refundable dollar-for-dollar credit on their state income tax, up to an annually established limit, to the extent that real estate taxes and one half of water and sewer bills (in the case of homeowners) or rent (in the case of renters) exceeds 10% of the applicant’s income. This program is administered by the Massachusetts Department of Revenue and has no direct impact on Town finances.

The “41A” Deferral Program

This program is authorized by G.L. c. 59, § 5, Clause 41A. Although not widely used, it is an important tool because it offers immediate and substantial property tax relief to seniors with significant equity tied up in a residence. Those who qualify may defer any part or all of their property tax for a given year, up to a cumulative total of half the assessed valuation of the property. All deferred taxes are eventually paid when the property is sold or transferred, whether before or after the resident’s death. Towns are permitted to set their own interest rates for this program at any rate up to 8%. Lexington’s rate is based on a floating Treasury rate equivalent to the Town’s return on its funds in the year of deferral. In FY2021, the rate is 1.41%. The rate set for each year remains in effect for the life of deferrals granted in that year.

In 2008, in response to a home rule petition, the state legislature enacted a special law (Chapter 190 of the Acts of 2008) allowing Lexington to establish a more generous income eligibility limit than that permitted under state law generally. Town Meeting most recently raised the income limit from \$75,000 to \$90,000 for FY2021 at the 2020 ATM.

The 41A deferral program is an attractive form of tax relief from the Town’s point of view because it is essentially revenue-neutral. While a significant increase in the number of participants could potentially affect the Town’s cash flow, there is little risk of loss since the Town is in effect making well-secured loans. The Town anticipates repayment of all deferred taxes with interest, and over time an equilibrium should be reached under which as many deferral agreements are repaid as are entered into.

The “41C” Exemption Program

For many years, the Town has made available to qualifying seniors a property tax exemption under Clause 41 of G.L. c. 59, §5, and its successor, Clause 41C. Under the “41C” Program, the Town receives partial reimbursement

from the State for exemptions defined under the program, subject to appropriation. The portions of the exemptions that are not reimbursed are funded from the Town's overlay account.

Prior to 2004, the amount of the credit was limited to \$500 per year and eligibility criteria were quite restrictive. Since then, the Town has taken a number of steps to expand both eligibility and the credit amount. Taking advantage of new local options made available by the legislature in 2002, Town Meeting voted in 2004 to:

- Increase the amount of the exemption to \$750.
- Lower the age of eligibility from 70 to the minimum allowed age of 65.
- Increase the income threshold from \$13,000 (single) / \$15,000 (married) to the maximum allowed amount of \$20,000 (single) / \$30,000 (married).
- Increase the threshold for personal assets, not including the home, from \$28,000 (single) / \$30,000 (married) to the maximum allowed amount of \$40,000 (single) / \$55,000 (married).

In 2005, Town Meeting voted to adopt the provisions of G.L. c. 59, § 5, Clause 41D, which automatically adjusts the income and asset limits for Clause 41C (but not the exemption amount) by a COLA established annually by the state Department of Revenue. The current income and asset limits are detailed in the table below.

In 2006, Town Meeting voted to increase the exemption to the maximum allowable amount of \$1,000, and in 2018 voted to double it to \$2,000 under the provisions of G.L. c. 59, §5, Clause C½.

The Senior Service Program

Low-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax, currently up to a maximum credit of \$1,540 (see table below). The Senior Service program, formerly funded from the overlay account, is now funded as part of the Town's annual budget and is subject to appropriation.

In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under G.L. c. 59, § 5K, and to establish a locally controlled program instead. This gave the Town the flexibility, through its Board of Selectmen, to:

- Allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program.
- Pay a wage in excess of the minimum wage.
- Allow a higher amount to be credited against a participant's property tax bill than permitted under state law.

Although the Select Board has the authority to expand eligibility to persons under age 60 who are disabled or handicapped, it has not yet done so, nor has it adopted a wage in excess of the state's minimum wage. The current eligibility qualifications and benefit limits are detailed in the table below.

Since the Town rescinded its acceptance of the statewide volunteer program in 2006, the State legislature has enacted several amendments to G.L. c. 59, § 5K enhancing the benefits of that program. As a consequence, the Town's maximum wage rate and benefit cap are now less generous than the State's.

CPA Surcharge Exemption

Low-to-moderate income homeowners age 60 or over, and low-income homeowners under age 60, may obtain a 100% exemption from the CPA surcharge on their property tax. These exemptions directly reduce the amount of CPA revenue that the Town receives.

Tax Relief Programs – Limits and Qualifications as of December 2020

State Income Tax Circuit Breaker		
Maximum assessed valuation		\$848,000
Income limits		
• Single individual		\$61,000
• Head of household		\$76,000
• Married, filing jointly		\$92,000
Maximum tax credit		\$1,150
41A Property Tax Deferral		
Income limit (single or married)		\$90,000
Interest rate for FY2021		1.41%
41C Property Tax Exemption	Single	Married
Income limit	\$28,470	\$42,708
Assets limit	\$56,945	\$78,298

Senior Service Program		
Income eligibility		\$70,000
Maximum benefit per household	(140 hours)	\$1,540
Hourly Rate		\$11.00

Complete details on all tax and utility relief programs available to Lexington residents are set forth in a brochure entitled *Property Tax Relief Programs*, available on the Town web site at <http://www.lexingtonma.gov/taxrelief>.

Appendix E: Specified Stabilization Funds

The state statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, section 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. It was further amended by the Municipal Modernization Act in 2016. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation out of the funds, must be approved by a two-thirds vote of Town Meeting. Appropriations into a fund may be approved by a majority vote of Town Meeting; and the dedication of a recurring revenue stream to a fund, which continues for a minimum of three years until revoked, may be made by a two-thirds vote of Town Meeting. To supplement its general Stabilization Fund, Lexington has created a number of specified stabilization funds, which are described below.

At the 2007 Annual Town Meeting, four specified stabilization funds were established to replace certain pre-existing special revenue accounts. Monies in the special revenue accounts, funded by negotiated payments from developers, had previously been spent without specific appropriation. In order to comply with Massachusetts Department of Revenue guidelines, and to make the existence and use of the funds more transparent, monies accumulated during the year in the special revenue accounts are now transferred periodically by vote at an annual or special town meeting to the following specified stabilization funds, where their appropriation is now subject to review by Town Meeting:

Transportation Demand Management/Public Transportation (TDM/PT) S.F.: Contains payments negotiated with developers to support the operations of transportation services. It was initially created to support the Lexpress bus service and the 2016 Annual Town Meeting extended the purpose of this fund to “supporting the planning and operations of transportation services to serve the needs of town residents and businesses.”

Traffic Mitigation (TM) S.F.: Contains payments negotiated with developers to support traffic mitigation projects, such as improvements to signals and pedestrian access at intersections, including funds previously contained in the Avalon Bay TDM special revenue account.

School Bus Transportation S.F.: Supports daily school bus operations and was originally funded with \$200,000 contained in the Avalon Bay School Bus Transportation special revenue account. This fund was dissolved at the 2018 ATM.

Section 135 Zoning Bylaw S.F.: Created to finance public improvements using monies contributed by developers pursuant to Section 135 of the Code of Lexington.

At the 2008 Annual Town Meeting, the *Special Education Stabilization Fund* was created to set aside reserves to help cover unexpected out-of-district special education expenses that exceed budget. A related goal was to enhance transparency around the out-of-district special education budget component by segregating this expense item and bringing budget overruns to Town Meeting for its approval. This fund was created in FY2009 with an initial appropriation of \$350,000 and another \$350,000 was appropriated to the fund at the spring 2009 Annual Town meeting.

At the 2009 Annual Town Meeting the *Center Improvement District Stabilization Fund* was created and was funded by a \$100,000 payment received from the developer of Lexington Place in FY2010. The funds may be used for projects such as tree planting, sidewalk improvements to the abutting connector between the parking lot and the sidewalk. In each year from FY2018–2020, \$27,000 was appropriated for the bike share program in Lexington Center.

At the 2011 Annual Town Meeting two more funds were created:

Avalon Bay School Enrollment Mitigation Fund: funded with a \$418,900 payment received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006. The terms of that agreement called for the establishment of an escrow fund in the amount of \$750,000 with disbursements made to the Town annually if the number of students residing at the development (Avalon at Lexington Hills) exceeded 111. The amount payable per student in excess of 111 was \$7,100. The fund was dissolved at the 2018 ATM.

Transportation Management Overlay District Fund (TMOD): funded by payments from those developers who choose to pay a transportation mitigation fee rather than taking responsibility for improving all the intersections in the area to a certain level as provided in Section 135-43.C of the Zoning Bylaw. Per Section 135-43.C(5)(c) “any transportation mitigation fees paid to the Town are intended to be used to fund infrastructure improvements that are necessitated by the proposed development of the applicant.”

At the 2012 Special Town Meeting, the *Capital Stabilization Fund* was created to set aside funds for future capital projects, including but not limited to building renewal projects, and/or to mitigate the impact on taxpayers of debt service, both excluded and non-excluded, related to capital projects.

After the Town issues a large bond for a project where the debt is exempted under Proposition 2½, the Town's exempt debt service rises sharply, with a direct impact property tax bills. This fund allows the Town to both reduce the magnitude and smooth the impact of the sudden increases in exempt debt service. Town Meeting can set aside funds in periods when the Town has a surplus, and in later years these funds can be appropriated to offset a portion of the exempt debt service. This in turn reduces the amount the tax levy must be raised above the usual limits under Proposition 2½.

This fund may also be used to mitigate sudden increases caused by new within-levy, i.e., non-exempt, debt.

At the 2018 Annual Town Meeting, three new funds were created with dedicated revenue streams. The *Visitor's Center Capital Stabilization Fund* was established to serve as a repository for grants, gifts, or special fees related to the Visitor's Center building capital project. The *Water System Capital Stabilization Fund* was established for the specific purpose of reserving monthly payments received from the Town of Bedford per an agreement for the sale of water (water from the MWRA goes to Bedford through Lexington's system). The agreement with Bedford has two components, 1) the cost of water used, and 2) a flat annual fee or "demand charge" that is split into monthly payments. The annual fee is set so as to cover costs of future infrastructure improvements related to the Lexington-to-Bedford water connection. It is envisioned that the monthly payments would be put into this stabilization fund for future capital projects instead of being applied annually for rate reductions. The annual fee for FY2018 was \$62,175 and it will increase each year by a CPI factor. The *Affordable Housing Capital Stabilization Fund* was established to reserve payments from Brookhaven for affordable housing, commencing in FY2020 per an agreement in regard to the rezoning article for Brookhaven's expansion at the 2017 Annual Town Meeting.

The table below shows the balances in stabilization funds as of January 31, 2021.

Stabilization Fund	Balance
Transportation Demand Management / Public Transportation	\$284,042
Traffic Mitigation	\$645,868
Special Education	\$1,153,517
Capital	\$20,663,853
Center Improvement	\$10,371
TMOD	\$99,340
Debt Service	\$314,821
Visitors Center	\$23,779
Affordable Housing Capital	\$191,202
Water System Capital	\$135,438

Appendix F: Other Post Employment Benefits

The OPEB Liability

The Town of Lexington is required by State law to provide health benefits to retired employees that are comparable to those provided for active employees. These and other retirement benefits, which are distinct from pension benefits, are known as “other post-employment benefits” or OPEB for short. Health care benefits are by far the largest component of OPEB. Currently, all of the Town’s retirees are eligible for Medicare and receive Medicare supplement coverage from the Town.

Because the Town is obligated to provide these benefits in the future, the anticipated costs extending over the lifetimes of currently vested employees and retirees represent a financial liability. The size of that liability depends on the number of employees, each employee’s number of years of service, the time intervals over which the retirees are expected to receive retirement benefits, the expected cost of providing those benefits in those future years, and the present value of those future benefits.

In a hypothetical world where the number of retirees remains constant and annual per-capita medical costs inflate at a rate close to a general inflation index, the size of the OPEB liability in terms of inflation-adjusted dollars would be relatively stable, because the increases and decreases would tend to balance out. In practice, however, the inflation-adjusted value of the OPEB liability often increases each year because of:

- real (inflation-adjusted) increases in the cost of health care,
- growth in the number of retirees receiving benefits, and
- actuarial adjustments to the projected longevity of retirees.

Pay-As-You-Go versus Pre-Funding

There are two approaches to funding the OPEB liability. The first is a *pay-as-you-go* model where annual OPEB expenses are paid entirely through appropriation from the tax levy. This model uses current dollars to pay for current expenses related to benefits earned in previous years. The Town’s pay-as-you-go OPEB cost for FY2022 was approximately \$7.8 million and the projected cost for FY2023 is approximately \$8.2 million not including small amounts for the Town’s shares of retiree dental and life insurance.

The other approach is a *pre-funded* model in which expenses are paid from a trust fund called the Post-Employment Insurance Liability Fund, or PEIL Fund. This fund exists, but it is only partially funded. Once it is fully funded, withdrawals from the Fund will cover the annual OPEB expenses, and the Town will make annual contributions to the Fund equal to the “normal cost”, or “service cost”, i.e., the present value of future benefits earned during the current year. The balance of the Fund will be maintained at or near the full-funding level by investment returns in addition to these annual contributions. This model, which pays for future expenses using current dollars, is also how the Retirement Fund (pensions) will operate once it is fully funded.

The difference between the current balance of the PEIL Fund and the amount needed for it to be considered fully funded is called the “unfunded liability”. Currently, contributions to the PEIL Fund act to reduce the size of the unfunded liability, and current-year OPEB expenses are funded from the operating budget, i.e., not by withdrawals from the Fund.

The pay-as-you-go and pre-funded models each have advantages and disadvantages. The pay-as-you-go model is simpler to administer, but there is no benefit from long-term investment earnings, and no hedge against the higher inflation of health care costs. In the pre-funding model, once a sufficient trust fund balance is achieved, the investment earnings pay for a substantial portion of the costs. Building up the trust fund results in higher expenses during the decades-long transition period, but should eventually result in lower annual appropriations from the tax levy.

Under pay-as-you-go, there is a large gap between the time when services are rendered and the time when funds must be raised to pay the benefits associated with those services. This gap can complicate long-term financial planning. With pre-funding, the projected fully-loaded cost of services is accounted and paid for in the current year.

Even partial pre-funding has some benefits. Any monies in the trust fund provide assurance that the Town will be able to satisfy at least some portion of its future liability, and the fund is always available as a reserve, e.g., to fund a portion of retiree health costs in particularly challenging fiscal years.

On the other hand, appropriating money into the trust fund for future obligations reduces the funds available to spend on other items or to be put aside for other purposes. Policy makers must consider whether such funding should take priority over other liabilities, such as the costs of maintaining or replacing roads and buildings in a timely manner. In some circumstances, choosing the latter might generate significant future savings.

On March 10, 2014, based on a recommendation from the OPEB Working Group, the Board of Selectmen endorsed a formal policy for making annual appropriations to the OPEB trust fund:

It is the policy of the Board of Selectmen to recommend to Town Meeting each year a budget contribution to the OPEB Trust Fund in an amount that ranges from 35 to 100 percent of the full Normal Cost, with the General and Enterprise Funds bearing their respective shares of those contributions. This approach will mitigate growth in the Unfunded Actuarial Accrued Liability, reducing the amount the Town will need to budget for health insurance by approximately one-third, as the assets of the OPEB Trust Fund will be used to underwrite the annual cost of retiree benefits.

Further, it is recognized that there are competing claims for limited Town funds, which are considered as part of the annual budget process. Consequently, the annual recommendation for OPEB funding shall be made in the context of other capital and operating budget needs, such that recommended OPEB funding shall not have a material, detrimental impact on service delivery or the maintenance of Town capital assets and infrastructure.

The Committee has supported this policy, and since 2014 the Town has made annual contributions of roughly 35% of the OPEB normal cost to the PEIL Fund, with the exception of 2020 when the contribution was lower due to uncertainty about the impact of the Covid-19 pandemic.

In FY2021, the Town Manager assembled a Financial Policy Working Group to review the above policy and consider possible modifications. To date, the Working Group has considered minor adjustments to the policy, but has not made any specific recommendations.

The Post Employment Insurance Liability (PEIL) Fund

The Post-Employment Insurance Liability Fund or PEIL Fund was created pursuant to authority granted to the Town through a special act of the Massachusetts legislature in 2002 (MGL Chapter 317). The Fund was created to allow the Town, at the discretion of Town Meeting, to earmark and set aside funds to pay for future retiree health benefits. Once money has been appropriated into the PEIL Fund, Town Meeting may only appropriate monies out of it to pay for health care costs of retirees.

The Retirement Board is responsible for the management of the PEIL Fund as well as the Retirement Fund, which supports the Town pension system. The rules governing the management of these two funds are similar. Unlike most other Town monies, the balance in each of these two funds may be invested in equities with degrees of risk and rates of return that are suitable for long-term growth.

As articulated in the above policy statement of the Board of Selectmen and as confirmed by the Financial Policy Working Group, the intention is to continue with the transition to the pre-funded approach. Hence, there have been appropriations into the PEIL Fund at each annual town meeting since 2008. Until the Town fully funds its OPEB liability, moving toward the pre-funded model will require the Town to continue paying for a number of years for annual pay-as-you-go OPEB expenses, while also appropriating funds into the PEIL Fund. This combination of appropriations could be continued until the PEIL Fund is fully funded.

GASB standards and the determination of the OPEB liability

The Town of Lexington follows standards set by the Government Accounting Standards Board (GASB) in its “statements”. In regard to OPEB accounting, GASB statements 74 and 75 (GASB 74 and GASB 75) lay out the relevant standards, having superseded the previous set of standards described in GASB statements 43 and 45. Briefly, these statements require the determination of the actuarial value of the Town’s OPEB liability according to specified metrics every two years, and the inclusion of a summary of the results in the Town’s financial statements. Bond rating agencies consistently ask about the actuarial report, suggesting that the size of the OPEB liability, and its current funding level, factor into the Town’s bond rating.

Estimating the present value of a complicated long-term liability like OPEB involves many actuarial assumptions, and the final results are very sensitive to some of these factors, especially the discount rate (the rate of return on the funds to be used to pay the future obligations), the predicted rate of inflation of per-capita medical costs, and the number of active and retired employees. An understanding of the actuarial analyses in a proper context requires consideration of the underlying assumptions, and judgment of how well they might mirror real-world conditions.

Each year, the Town engages an actuarial consultant who must follow the procedures and reporting templates established by the GASB standards to produce a report. A full actuarial analysis is done every two years. A briefer update based on the previous year's full analysis is done in each intervening year.

The primary purpose of the actuarial reports is to provide information that is presented in the Town's financial statements. This information, in turn, informs potential investors about one specific aspect of the present financial health of the Town, and enables uniform comparisons of the financial health of multiple municipalities.

A secondary use of the actuarial reports is to provide guidance to a municipality when policies regarding the OPEB liability are considered. A municipality may use additional modeling scenarios with a broader range of financial assumptions when the formally mandated assumptions used for the report do not fully capture the municipality's OPEB funding process and liabilities.

Recent Status of OPEB Funding

The most recent full actuarial analysis presents the picture of the Town's OPEB liabilities and funding as of June 30, 2019. An update rolls the analysis forward to June 30, 2020. For these analyses, the actuary used a discount rate of 7.5% which was considered representative of the long-term growth of an equity-investing account like the PEIL Fund. Using this discount rate, the total OPEB liability as of June 30, 2020, was estimated at approximately \$146 million. Using a 6.5% discount rate (projecting a lower rate of return on investments), the liability would be approximately \$167 million. The normal cost for that fiscal year (FY2020), was estimated, again using the 7.5% discount rate, to be just over \$4.98 million.

History of the PEIL Fund

The history of appropriations into the PEIL Fund is given in the following table. Since the monies in the Fund are invested, the Fund balance will be significantly larger than the sum of past appropriations into the Fund. At the close of FY2021, the balance in the PEIL Fund was \$24,058,352, which does not include the FY2022 appropriation of \$1,885,486 made at the 2021 Annual Town Meeting. The current fund balance will be the FY2021 closing balance plus the FY2022 appropriation and any investment earnings or losses since the start of FY2022. This works out to approximately \$26 million.

Appropriations Into the PEIL Fund

Appropriation Approved	Amount	Appropriation Approved	Amount
2008 Annual Town Meeting	\$400,000	2018 Annual Town Meeting	\$1,842,895
2009 Annual Town Meeting	\$440,690	2019 Annual Town Meeting	\$1,885,486
2010 Annual Town Meeting	\$479,399	2020 Annual Town Meeting	\$750,000
2011 Annual Town Meeting	\$500,000	2021 Annual Town Meeting	\$1,885,486
2012 Annual Town Meeting	\$500,000		
2013 Annual Town Meeting	\$775,000		
2014 Annual Town Meeting	\$1,119,000		
2015 Annual Town Meeting	\$1,200,000		
2016 Annual Town Meeting	\$1,512,318		
2017 Annual Town Meeting	\$1,842,895		